

CHINA'S ENERGY SECURITY AND THE SOUTH CHINA SEA

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## ABSTRACT

CHINA'S ENERGY SECURITY AND THE SOUTH CHINA SEA, by LCDR Stephen J. Ruscheinski, USN, 120 pages.

The extraordinary economic rates of growth demonstrated in the Asia-Pacific region over the past decade are inextricably linked to an increase in energy consumption within the region. As annual consumption of energy resources continues to rise in order to fuel growing economies, energy demand in most countries has developed into energy need.

Competition for energy in the name of energy security can take many forms. Contested claims, such as those driven by overlapping exclusive economic zones in maritime areas, have generally been settled through diplomacy. At other times, skirmishes involving military forces have resulted where words have failed.

A textbook example of using the military in support of energy security is provided by China and its actions in the South China Sea against Vietnam and the Philippines. This study questions whether China believes access to the South China Sea is of vital interest, one directly connected to the survival, safety, and vitality of its future. Initial discussion focuses on review of Chinese economic and energy policies. Subsequent analysis details Chinese behavior within the broader context of international relations theory, concluding with discussion on Chinese policy, resource, and sovereignty issues specific to the South China Sea.

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## ACRONYMS

AIC	Advanced Industrial Country
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
Btu	British thermal units
CIA	Central Intelligence Agency
CNN	Cable News Network
EEZ	Exclusive Economic Zone
EIA	Energy Information Administration
GDP	Gross Domestic Product
GNP	Gross National Product
ICJ	International Court of Justice
IEA	International Energy Association
<i>IEO01</i>	<i>International Energy Outlook 2001</i>
ISA	International Sea-Bed Authority
NIC	Newly Industrialized Country
NSS	<i>National Security Strategy</i>
NMS	<i>National Military Strategy</i>
PLA	People's Liberation Army
PLAN	People's Liberation Army Navy
PRC	People's Republic of China
<i>QDR</i>	<i>Quadrennial Defense Review</i>

SLOC	Sea Line of Communication
SOE	State-Owned Enterprise
SPR	Strategic Petroleum Reserve
UN	United Nations
<i>UNCLOS</i>	<i>United Nations Convention on the Law of the Sea</i>
USDOE	United States Department of Energy
WTO	World Trade Organization

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## CHAPTER 1

### INTRODUCTION

#### Summary

The extraordinary economic rates of growth in the Asia-Pacific region over the past decade are inextricably linked to increased emphasis upon energy policy by its members to sustain that growth. As annual consumption of natural resources continues to rise in order to fuel such growing economies, energy demand in most countries has developed into energy need. Depending upon its reserve of resources, a nation often has to look beyond domestic supply to satisfy the increasing demand in energy production. It is this shortage in domestic resources that forces competition across borders for remaining deposits of fossil fuels, specifically oil. This competition in the name of energy security can take many forms. Contested claims, such as those driven by overlapping exclusive economic zones in maritime areas, are usually settled through diplomacy. At other times, small skirmishes involving military forces have resulted where words have failed.

A textbook example of using the military as an instrument of power to support its energy security is provided by China and its actions in the South China Sea against Vietnam and the Philippines. Incidents to date have been small-scale but increased aggression over disputed resources has great potential to bring the United States into future conflicts due to treaty and alliance considerations within the region. If China believes access to the South China Sea is of vital interest, one directly connected to the survival, safety, and vitality of its nation's future, to what degree might China be willing

to employ the varying instruments of power in order to press its claimed sovereign rights within the South China Sea (NSS 2000, 4)? As energy security takes on a greater role in driving foreign policy decisions for all nations, the United States must analyze the diplomatic, military, and economic implications involved if China determines the South China Sea is necessary to its national interests.

### Background

To better understand China's resolve toward greater energy independence, a review of recent Chinese economic and energy policies is necessary. China's increasing strength within the international community began with the market reforms initiated by Deng Xiaoping in the late seventies. Those reforms set one of the world's oldest civilizations on a course to transform its once latent potential into actual power (Swaine and Tellis 2000, 1). China's gross domestic product (GDP) has quadrupled since 1978, with an unprecedented economic growth rate averaging greater than 9 percent annually over the past decade (CIA 2001a). China also stands out as one of the few Asian countries to successfully weather the Asian economic crisis of 1997-99, a crisis that saw great reversals in economic growth among the typically strong "Asian Tiger" economies that neighbor China. The government's current target of 7.0 percent real annual GDP growth for the next several years is thought a realistic goal by leading forecasters within the international community (USDOE EIA 2001c). China's once listless, centrally planned economy has become the second largest in the world after the United States, measured upon purchasing power parity (CIA 2001a). In fact, before the Asian economic crisis took place, China's growth was so rapid that some analysts were predicting China's gross national product (GNP) would surpass that of the United States by 2006 (Wolf et

al.1995, 9). Though the majority of current estimates project the two economies will not become equal in size until sometime around 2020 (based upon purchasing power parities), this does nothing to diminish the fact that China's growth since the late 1970s remains nothing short of remarkable (Nye 2002, 19).

China's extraordinary economic growth is evident in its rate of industrialization which is characteristic of a newly industrialized country (NIC), such as Thailand or Indonesia (Kaplan 1997, 297). In effect, China is currently experiencing an Industrial Revolution similar to the one that America experienced in the late 1800s. One difference between the American and Chinese Industrial Revolutions is evidenced by China's transition to a market economy *during* its revolution. China must carefully balance how fast it privatizes industry as its state-owned enterprises (SOEs) tend to struggle against increased competition from the very industries the government privatized. Regardless, as the economy and per capita income have grown, they have produced extraordinary demand for automobiles, building materials, home appliances, and other consumer products (Klare 2001, 16). Car ownership alone is predicted to rise by 12 to14 percent per year, while air travel continues its increase by an average of 20 percent per year (Klare 2001, 115). With both its burgeoning industry and growing middle class experiencing greater access to open economic markets, the long-term implications are clear: China's spectacular economic growth will continue to drive an increasing and insatiable demand for consumer and industrial goods.

To produce and power both consumer and industrial goods in the world's most populous country, China must consume vast quantities of energy (Klare 2001, 16). China's total energy consumption for 1999 measured 32 quadrillion British thermal units

(Btu) according to the U. S. Energy Information Administration's *International Energy Outlook 2001 (IEO01)*, or about one-third of U.S. energy consumption (USDOE EIA 2001a). Current *IEO01* projections for China place the average yearly increase at 4.7 quadrillion Btu through 2020, roughly four times the rate of either Europe or the United States over the same time period (Klare 2001, 16-17; USDOE EIA 2001a). Overall, China's total energy consumption is expected to increase approximately 52 quadrillion Btu by 2020, reaching 84.1 quadrillion Btu (USDOE EIA 2001a). To put these numbers in proper context, the United States (currently the world's largest consumer of energy) is projected to rise in total energy consumption from 96.7 quadrillion Btu in 1999 to 127.0 quadrillion Btu by 2020 (USDOE EIA 2001a). This represents a mere 31 percent increase in total energy consumption for the United States in comparison to 163 percent for China over the same period of time.

There is clear concern that China's exponential growth in total energy consumption will far outpace its development of domestic sources of supply (Downs 2001, 6). Coal currently provides 62 percent of China's primary energy consumption (USDOE EIA 2001c). With 23 percent of the world total in coal consumption, China is by far both the largest producer and consumer of coal within the international community (USDOE EIA 2001c). While coal has been in oversupply during recent years, and its demand is clearly projected to rise significantly, a couple of factors may make coal a less suitable option for long-term use. First, heavy reliance upon coal for power generation produces commensurate levels of air pollution. As greater amounts of carbon dioxide are released during the Chinese Industrial Revolution, the cost of health considerations and environmental damage will likely gain greater attention both in China and throughout the

world community for the country to “clean up” its industry (Klare 2001, 114-115).

Present solutions to the Chinese coal situation with respect to the environment may lie in undeveloped technologies. Coal liquification and gasification are both gaining notice as possible replacements to current coal development processes due in part to their environmental benefits and possible use as a coal substitutes for some petroleum products (USDOE EIA 2001c). Second, coal cannot power the needed development of China’s transportation infrastructure (Klare 2001, 115). As discussed earlier, the increased numbers of automobile owners and a growing airline industry will need oil, not coal, for power.

Despite environmental concerns and technological limitations on the use of coal, it remains the one energy resource that China has in any real abundance. In fact, China’s limited supplies of domestic oil reserves will help to ensure that the coal industry remains central to meeting China’s future energy needs. Current projections estimate that coal consumption will rise by 90 percent and remain a stable 65 percent of China’s primary energy consumption through 2020 (USDOE EIA 2001a). For comparison, *IEO01* forecasts primary energy consumption of coal for all of North America at 28 percent through 2020 (USDOE EIA 2001a). While China’s current surplus coal situation provides both for its domestic energy need and the added luxury of income from export (net coal exports for China topped a record 59 million short tons in 2000), the same cannot be said of China’s oil situation (USDOE EIA 2001c).

China lacks significant domestic quantities of oil, having been a net importer of oil since 1993 (USDOE EIA 2001c). In addition, its proven oil reserves top out at a modest 24 billion barrels; this constitutes only 2.3 percent of the world total for a country

with 22 percent of the world population (Downs 2000, 6). While Chinese domestic oil production is expected to remain fairly constant at 3.0 million barrels per day through 2020, oil consumption for 1999 averaged 4.3 million barrels a day and is expected to reach 10.4 million barrels a day by 2020 (USDOE EIA 2001a). The gap between oil production and oil consumption is clearly evident and growing. Adding to the difficulties faced in trying to make up for this shortfall, oil fields, such as Daqing in the northern provinces, are quickly maturing and expected to show declining production over their remaining years. High expectations for exploration at Tarim, in the Xinjiang region of Western China, have met with disappointment as progress has stalled due to Tarim's remoteness coupled with lack of infrastructure for development and transport. Prospects in Xinjiang are further complicated by the state's noticeably reduced lack of control within this mostly Muslim region, primarily consisting of the separatist Uighur ethnic group (Kaplan 1997, 287-297, 300). Newer oil fields in the southern provinces are beginning to produce relatively substantial amounts of crude, but transport problems again hinder attempts at getting the petroleum to where it is needed. While China has launched a massive infrastructure development program as part of its *Tenth Five-Year Plan* (2001-2005) in order to correct its transport deficiencies, results are not expected to be realized for years, even decades to come (Farr 2001). Faced with numerous domestic challenges to oil production, China will have to engage in greater international trade to make up for its increasing oil shortfalls.

China currently imports approximately 1.2 million barrels of oil a day to meet its energy needs (USDOE EIA 2001a). Given its on-average oil production of 3 million barrels a day, it is forecasted that China will need to import roughly 7.0 million barrels a

day, or (like the U.S.) approximately 60 percent of its oil requirement, by 2020 to make up for its shortfalls (Downs 2000, 8-9). The importation of large quantities of crude is further complicated by the fact that most Chinese refineries are currently only capable of processing Asian “sweet” crude which is low in overall sulfur content. Middle Eastern crude, while relatively more abundant than Asian crude, is typically of the “sour,” or high sulfur variety, thus creating a need for construction of new refineries or modification of old refineries to process “sour” crude if China wants to meet its daily energy demands. China has sought additional methods of import including the possible development of transnational pipelines in cooperation with Russia and other Central Asian countries located near the oil-rich Caspian Sea. Though the Caspian Sea region may contain oil reserves second only to the Middle East, the cost and scope of potential pipeline projects make any near-term development (and thus any impact) seem doubtful (Klare 2001, 103-104). Perhaps the greatest concern for China involving the import of oil (as with most countries) lies in what would be a Chinese susceptibility to “oil shock,” whether from an increase in world oil price or through the potential interruption in the global flow of oil to China. Given China’s well-founded historical fears of dependency on foreign powers, the government has sought an aggressive energy policy to increase its energy security with respect to oil (Downs 2000, xi).

Chinese energy policy, in conformity with Maoist doctrine, has typically centered upon self-sufficiency through self-reliance at both the state and local levels (Downs 2000, 11). Self-reliance within this context does not signify complete independence, but rather the ability to simply “keep the initiative in one’s own hands” (Downs 2000, 11). With an increasing need to import greater energy resources, the Chinese government has

embarked upon a three-pronged energy strategy in its *Tenth Five-Year Plan* to lessen its current dependency upon other nations for its energy needs. First, it seeks to exploit and diversify its indigenous energy resources; second, it seeks to diversify its foreign sources of oil; finally, it is investing heavily in energy infrastructure, as previously noted (Farr 2001). The first and second prongs are indicative of the fact that the Chinese government understands its increasing strategic dependence upon oil; indeed, it is clear that the broadening imbalance between oil supply and demand implies probable strategic vulnerability, more so than strategic dependency.

To partially answer the problem of its strategic oil vulnerability, China has embarked upon greater development of domestic resources both on land and at sea. Previous discussion has covered land developments from the building of new oil fields in the southern provinces to greater exploration throughout Xinjiang in the west. In fact, current Chinese oil production capacity locates approximately 90 percent of all its facilities on land (USDOE EIA 2001c). With no recent land discovery of oil in significant quantities, and its current “continental” sources continuing to be depleted, the Chinese have increasingly looked to offshore oil exploration. Unfortunately, expansion and development of coastal offshore oil facilities has been slow, and the corresponding gains have been minimal. The need for a strategic reserve has also been identified to weather any future oil price fluctuations or actual interruptions of supply lines discussed above (Farr 2001).

To find the greater deposits of natural resources necessary for its current and reserve needs, Chinese investment in offshore oil exploration has become paramount. Specifically, the Chinese have embarked upon numerous ventures throughout the South

China Sea, much of the time in contested territory. At present, China claims the majority of the South China Sea as sovereign territory based upon historical grounds, despite the assertions of other claimants to the contrary (Valencia et al. 1999, 20-22). China also proclaims that potential oil reserves within the region could run in the billions of gallons, though this has not been substantiated by outside sources (Valencia et al. 1999, 9-11). In addition to its potential reserves, the sea lines of communication (SLOCs) running through the South China Sea have taken on an equal importance to China as more and more of its imported crude, not to mention the majority of Chinese import and export goods, travel these lines to and from China. It would appear that greater Chinese expansion and development within the South China Sea, coupled with provisions for the security of the flow of resources and goods through this sea, could potentially solve some of China's difficulties in mitigating its strategic oil vulnerability.

As China focuses more attention on the South China Sea, the Chinese military is in transition. Not only are its air and land forces rapidly modernizing, China is also realizing the very beginnings of a blue-water maritime force. The United States and its allies have noted China's increased presence within the South China Sea, its growing defense expenditures, and the relative modernization of its military forces. The current U.S. policy toward China is one of comprehensive engagement, in the hopes that China will continue to act as a responsible member of the world community (NSS 2000, 2). If China determines that sovereign control over the South China Sea is vital to its national interests due to its strategic oil vulnerability, there could be significant potential for future conflict within the South China Sea.

### Primary Research Question

This thesis intends to answer the following question: Is access to the South China Sea vital to China's future energy security?

### Importance of Primary Research Question

The overall significance of the posed research question resides in an answer of the affirmative as to whether access to the South China Sea is vital to China. If access to the South China Sea is necessary to China's national interests, then a future U.S. response may be necessary to protect American interests.

### Methodology

The question of whether access to the South China Sea is vital to China's energy security is a complex one. The methodology described will be supported by the deductive reasoning process through the collection and analysis of relevant research in the field. For an appropriate assessment of the primary research question, this study will provide a qualitative analysis of the subordinate questions. These subordinate questions have been grouped into three specific areas of interest, with each area ultimately devoted to answering one of three secondary research questions. A synopsis of the three areas and their corresponding secondary research questions is as follows:

1. Policy: Does actual or declared Chinese policy support the argument that access to the South China Sea is a vital interest to its energy security?
2. Resource: If harvesting undersea resources is found to be economically feasible, can China afford not to press its claims of the Spratly's and elsewhere throughout the region?

### 3. Sovereignty: Will China press its legal claims to gain “lost” territory on its periphery for future resource development?

While each area represents a unique set of issues, obvious overlaps do exist among the areas. One of the difficulties this paper will face is that an assessment of the multiple interrelating variables both within and among these areas may not readily determine a final, clear-cut, “yes-or-no” answer to the primary research question. In other words, no precise formula exists to provide a definitive answer to the question. It is more likely that the “qualitative” answer will be found somewhere between the two extremes. Deviating from an absolute answer might imply that this paper will try to assess the *degree* to which the question can be answered in terms of some sort of percentages. Some case studies have done this by applying a value to areas (i.e., answering in the affirmative to one of the three questions means there is a 33 percent or “low” chance of an event occurring while answering in the affirmative to two of the three questions means there is a 66 percent or “high” chance of an event occurring). In this case, whether one or all three of the secondary research questions are answered in the affirmative is irrelevant. Simply answering in the affirmative for any one of the areas may imply that China considers access to the South China Sea vital, thus answering the primary research question. Therefore, the yes-or-no answer to this question will simply be based upon a preponderance of the empirical evidence provided in chapter 3.

Of note, the primary question is not trying to determine a definitive Chinese *course of action* to protect an interest deemed vital; this thesis need only prove that access is (or is not) considered of vital interest to the Chinese. Whether the Chinese will *act* through diplomatic, military, or economic response on behalf of their vital interests

can only be resolved *after* the primary research question has been answered in the affirmative. In this instance, a course of action would be more germane to follow-on research of this study.

### Assumptions

In order to proceed, this thesis will make the following assumptions:

1. The Chinese economy will continue its present positive growth rate over the next twenty years.
2. The move toward a more fully-functioning free market economy will continue to drive China's positive growth rate.
3. Chinese energy demands will grow in accordance with the prosperity of its economy.

### Limitations and Delimitations

The most significant limitation of this proposed study is that a long-term forecast of energy and economic estimates is conjecture at best given the number of variables involved. Obviously, much can happen over the course of twenty years to affect today's predictions, but projections are still necessary to derive strategic implication. The author has capped his collection of estimates at 2020 and will keep his conclusions framed within that context. Another limitation is the unclassified nature of this study. While the wealth of information at classified levels could provide much additional insight, the objective of this paper is policy discussion at a strategic level that would be accessible to the largest audience possible, thus this paper will remain focused upon discussion at an unclassified level.

### Definition of Vital Interests

To successfully answer the primary research question, a working definition must be determined for interests that are considered to be vital. This is of necessity because the research question is ultimately trying to answer whether access to the South China Sea is of vital interest to the Chinese. Most theorists agree that all nations have basic interests that underlie their general behavior. At one time or another, such theorists have further classified these *national interests* as issues that were vital, secondary, primary, or peripheral to the state. The singular objective of these multiple classifications was to offer a methodology for clarifying which issues were of a necessity to a nation's survival from those issues that, while significant, were not necessarily threatening to a nation's existence. The realist scholar Hans Morgenthau classified national interests as either *vital* or *secondary*. He considered vital interests as those related to the very survival of the state; if these interests were challenged then it was his opinion that war became the *only* course of action for the sake of national preservation (Morgenthau 1962, 191). Morgenthau defined secondary interests as those which were open to compromise or negotiation because the nation's sovereignty was not threatened. In addition, though secondary interests may have posed no threat to a nation's sovereignty at present, there was always potential that these interests could become vital over time (Morgenthau 1962, 191). While these definitions have great utility, the absolute nature of each explanation makes current application somewhat impractical (i.e., only the extremes of war or compromise are recognized).

For purposes of this thesis, the author will differentiate a nation's vital interests from its other significant national interests through the following definition: A vital

interest is considered any issue so fundamental to the well being of the state that it *cannot* be compromised and therefore *may* result in the use of military force to preserve it (Evans and Newnham 1998, 345-346). Implicit in this definition are two crucial themes. First, a vital interest may not relate *exclusively* to the subject of national survival since nations will often act on vital interests even when territorial boundaries are not threatened as was the case with the United States in the Vietnam War (Evans and Newnham 1998, 345-346). Second, while military force may be used as the primary means of preservation, it is also recognized that diplomatic and economic means exist to preserve a vital interest. In due course, this definition of vital interest provides the utility needed to answer the primary research question.

### Conclusion

The principal purpose of chapter 1 was to introduce the subject, establish the problem, and provide for a methodology to conduct research. Primary discussion focused upon China's economic and energy policies to better understand the relevancy that the South China Sea has with regard to Chinese energy security. During this brief overview, the multiple questions derived from this topic and their subsequent implications have been touched upon only lightly. Chapter 2 will provide a review of literature on current trends developed from materials referenced. The objective is to take a step back from the primary research question and consider the broader context before delving into the finer details that will accompany the qualitative analysis contained within chapter 3. Final conclusions, as well as proposals for additional research, will be outlined in chapter 4.

## CHAPTER 2

### REVIEW OF LITERATURE

#### Introduction

Analysis concerning strategic studies will require an acquaintance with the seminal works of its leading authors. Because the amount of literature available on this subject is extensive, the review must remain representative vice comprehensive in nature. As varying works are discussed, keep in mind the concept of power. This notion is central to all three grouped areas of interest and ultimately to answering the primary research question. The overall objective of chapter 2 is to provide a *preliminary* understanding of Chinese behavior within the international community.

#### China and Realism

China is presently one battleground for competing theories of international relations; however, in the considerable post-Cold War literature of security issues concerning Northeast Asia, almost all authors (realist and liberal) pay deference to the fact that power politics is alive and well throughout the region (Mearsheimer 2001, 373). Realism, sometimes called the school of “power politics” within the field of international relations, is primarily focused upon nation-states as rational actors that seek to dominate one another through the maximization of power. This competition for power all takes place within the context of an anarchic international system. Classical realist texts include Hans Morgenthau’s 1948 *Politics Among Nations* which stresses human nature as an explanation to why states seek power and E. H. Carr’s 1939 *The Twenty Years’ Crisis* which offers more a defense of realism than an actual theory of international politics as in

Morgenthau's case. Modern realist works include Kenneth Waltz's 1979 *Theory of International Politics* and Robert Gilpin's 1983 *War and Change in World Politics*. Waltz theorizes that it is the anarchic structure of the international system that forces states to chase power while Gilpin provided generalizations based upon observation about power relationships within the international system (Mearsheimer 2001, 17-22). These works and other significant texts in the realist tradition will be discussed further in the chapter, for present it need only be understood that these books will provide the foundation for understanding the behavior of nation-states that border the South China Sea.

Whether students or theorists of international relations believe realism is an outmoded way of thinking, this is not how China's leaders continue to view the world--it is quite clear that its leaders think in realist terms and exhibit realist tendencies when interacting with the international community (Mearsheimer 2001, 375). According to Thomas J. Christensen, Professor of Political Science at Cornell University, noted Sinologist, and author of *Useful Adversaries*, China "may well be the high church of realpolitik in the post-Cold War world" (Christensen 1996, 37). The term *realpolitik* is a German reference to the adoption of policies with limited objectives that have a reasonable chance for accomplishment; it is often used, right or wrong, as a synonym for "power politics" (Evans and Newnham 1998, 467). The consequences of this type of thought by Chinese leadership would suggest that a China which approached or equaled the United States in power would pursue its territorial claims in the South China Sea, try to attain regional hegemony, increase its stature in the global community, and seek to change the rules of the international system to its own advantage (Khalilzad et al. 1999,

17). Before these issues are considered in detail, it is essential to gain insight on the definitions of power as there exists two principal schools within the realist tradition.

### Power as Outcome

While most contemporary realists accept Morgenthau's concept of interests defined in terms of power to navigate the strategic environment, they vary as to whether that power should be defined in terms of capabilities or outcomes (Morgenthau 1968, 8). The latter school of thought defines power as the ability to effect the outcomes a state desires, and if necessary, to change the behavior of another state, or group of states, to make this happen (Nye 2002, 4-5). The argument presented is that power exists only when a state exercises coercion or influence over others, and therefore can only be determined after the outcome is decided. Simply stated, the state with the most power is the one that has prevailed in the struggle for it (Mearsheimer 2001, 57). The problem with defining power in terms of relationship outcomes is that it is theoretically impossible to predict the true distribution of power within the international system *before* a conflict, since by this definition the state with the most power can only be determined *after* it has been observed which state has triumphed. It would appear that capability has gained greater acceptance within the realist community for the simple reason that power relationships based upon outcome have always been much more difficult to measure or quantify under these guidelines (Keohane and Nye 1977, 11, 224).

### Power as Capability

Many realists define power in terms of capability or possession of such elements as population size, extent of territory, level of natural resources, economic strength, size of military force, and level of political stability. The preference for this standard is clear:

measurement of tangibles is much more conducive to assessing the power of states *prior* to conflict. These guidelines are of obvious utility to academics and strategists because quantifying power allows the analyst to measure the power of states relative to one another within the system. This not only facilitates comparisons within current power relationship but also assists with projections on what the future balance of power might be.

Power as a capability is often subdivided into potential (or latent) power vice actual power. John Mearsheimer, author of *The Tragedy of Great Power Politics* and professor of political science at the University of Chicago, believes potential power is based upon the size of its population and the level of its wealth; his argument is that these two elements are the principal building blocks of military power (Mearsheimer 2001, 55). Using his reasoning, he would advise great powers to pay close attention to how much latent power China has, because increasingly wealthy and populous states typically build powerful armies to protect their interests (Mearsheimer 2001, 43-45). Given this context, he defines the actual power of a state as the army, naval, and air forces that preserve its sovereignty (Mearsheimer 2001, 43). In the pessimistic tradition of realists, Mearsheimer warns that “armies are the principal instrument for conquering and controlling territory--the paramount political objective in a world of territorial states” (Mearsheimer 2001, 43). Though a qualitative analysis of statements such as these will occur in chapter 3, it is important to recognize for now that power defined as capability remains one of the best instruments toward understanding nation-states’ relationships within the international community.

### Balance of Power

Many authors consider the phrase “balance of power” less a theory of international relations than a description of these relations (Kaplan 2002, 105). While the term has as many as nine different meanings within academia, balance of power as a system of international politics may be the most accepted (Evans and Newnham 1998, 41-44). The idea of balance, although not specifically stated, was alluded to as early as ancient Roman times by Thucydides in his classic text *History of the Peloponnesian War* (Evans and Newnham 1998, 42). Thucydides’ timeless masterpiece recounts the struggle for power between Athens and Sparta in the fifth century B.C. Modern academics and authors tend to use the term as a predictor for how states will behave; the trend of interaction between states has demonstrated that when any one state seeks to dominate a system, all other states will try to limit this drive toward hegemony, thus returning the system to its original balance or equilibrium (Evans and Newnham 1998, 42; Nye 2002, 14). Many realists admire the classic nineteenth-century European balance of power because of its constantly shifting alliances which acted to contain the ambitions of any especially aggressive power (Nye 2002, 12). Most “balance of power” theories support the concept that all countries will pursue policies to prevent other countries from developing the power necessary to threaten their independence (Nye 2002, 14). While it is no secret that states will employ any variety of means, whether diplomatic, military, or economic, to shift the balance of power in their favor, even if such actions eventually antagonize other states, what is of considerable debate within the realist discipline are two very similar but ultimately differing theories on balance of power--defensive vice offensive realism (Mearsheimer 2001, 34).

### Defensive Realism

Structural realism, sometimes referred to as defensive realism, made its first appearance in the late 1970s with the publication of Kenneth Waltz's landmark *Theory of International Politics* (Mearsheimer 2001, 19). Unlike Morgenthau's human nature realism, Waltz does not assume that great powers are inherently aggressive because of a will to power as expressed by the individuals within a system (Mearsheimer 2001, 19; Morganthau 1968, 4, 28). Rather, Waltz and Robert Gilpin believe it is the international system itself that will fundamentally determine the behavior of individual states (Evans and Newnham 1998, 277). Waltz concurs with "balance of power" advocates that nation-states are merely trying to survive. In his words, "both friends and foes will react as countries always have to threatened or real predominance of one among them: they will work to right the balance" (Waltz 2000, 55-56). It is at this point, however, that Waltz and offensive realists, such as John Mearsheimer, part company. Mearsheimer contends that Waltz does not emphasize that the international system provides great powers with good reasons to act offensively to gain power, instead Waltz believes that all states will tend to act only defensively, trying to maintain the balance of power rather than upset it (Mearsheimer 2001, 19-20). In other words, Mearsheimer's argument is that defensive realists are primarily concerned with states attaining and maintaining the status quo within the international system. Thus, according to defensive realism, present Chinese behavior seeks merely to gain enough power to sufficiently maintain its survival and a certain measure of influence within the region. More precisely, it would neither seek to dominate its neighbors nor the international community.

### Offensive Realism

As with defensive realism, Mearsheimer sees great powers concerned primarily with how to survive in a world where there is no central authority to protect them from one another; they quickly realize that power is the key to survival (Mearsheimer 2001, 21). Offensive realism differs from defensive realism over the subject of how much power a state desires. In Mearsheimer's own words:

For defensive realists, the international structure provides states with little incentive to seek additional increments of power; instead it pushed them to maintain the existing balance of power. Preserving power, rather than increasing it, is the main goal of states. Offensive realists, on the other hand, believe that status quo powers are rarely found in world politics, because the international system creates powerful incentives for states to look for opportunities to gain power at the expense of rivals, and to take advantage of those situations when the benefits outweigh the costs. A state's ultimate goal is to be the hegemon of the system. (Mearsheimer 2001, 21)

This distinction between offensive and defensive realism is important because it ascertains that China would seek to maximize its relative power as a means to increasing its odds of survival. Simply put, the only way according to offensive realism that China can guarantee its security is if it becomes a regional, if not global hegemon.

### Polarity (Distribution of Power)

Robert O. Keohane, professor of political science at Duke University and a well respected liberal theorist, has asserted that there is a strong tradition of categorizing the distribution of power within the international system according to the number and importance of its state actors (i.e., unipolar, bipolar, and multipolar) (Keohane and Nye 1977, 20). Unipolarity describes an international system in which there is but one dominant power or hegemon. Hegemonic states are powerful enough to determine or decisively influence the character of the rules and institutions governing the international

system (Swaine and Tellis 2000, 156). Many believe the United States, as the only remaining superpower after the end of the Cold War, has now obtained hegemon status, thus influencing international institutions such as the United Nations (UN) and the World Trade Organization (WTO) to operate predominately under its Western ideals. This may go a long way toward explaining how China views the principle of hegemony. Although its actions are typically realist in nature, Chinese rhetoric often decries the evils of hegemony and power politics (Khalilzad et al. 1999, 11). They look at hegemonic behavior in terms that “convey a pejorative meaning, and are most often used to describe oppressive or predatory behavior by strong states” (Swaine and Tellis 2000, 156). A further discussion of hegemonic behavior will occur later in the chapter.

A bipolar system would consist of two great powers, such as that which existed throughout the majority of the Cold War between the United States and Russia. Bipolarity is a power configuration considered by many to produce the least amount of fear among great powers (Mearsheimer 2001, 45). Proponents of this type of thinking believe that the two great powers will roughly balance each other out in terms of power, thus bringing equilibrium to the system (Mearsheimer 2001, 45). Other scholars believe bipolarity exacerbates tensions within the international system by necessitating a security dilemma between rival great powers in which fear drives both to aggression, possibly war. While many authors believe that China implicitly desires a bipolar configuration of which it would play a part, at present the declared preference of its government is for the establishment of an international system that reflects increasing multipolarity (Khalilzad et al. 2001, 17).

Multipolarity exists within a system when there are at a minimum three predominant powers (Evans and Newnham 1998, 340-341). Many believe the “balance of power” theory is a classic example of multipolarity. As stated before, this type of arrangement breeds alliances and coalitions. Those states that do not “balance” against an aggressor will typically “bandwagon” behind it to ensure their survival. There is wide disagreement on whether multipolarity brings balance or instability to the international system. Some authors surmise that by definition multiple poles imply a lack of domination by any one state, thus a peaceful balance. Most authors maintain that war is a constant companion of the multipolar balance of power (Nye 2002, 13). A few authors account for both explanations by defining the structure of a system as balanced or unbalanced multipolarity based upon the power differential between its principal polar actors (Mearsheimer 2001, 45). Regardless of the results these theories suggest, there is little doubt that China is committed to multipolarization of the world within the post-Cold War environment.

### Revisionist Intentions

The Chinese leadership considers the present international system inherently unsatisfactory (Khalilzad et al. 1999, 10). Their rhetoric repeatedly charges that U. S. power and influence, which it believes excessive, should be “cut down to size” (Khalilzad et al. 2001, 17). Chinese leaders are often agitated at the multiple constraints placed upon them by what, in Beijing’s view, are predominately Western-influenced international institutions. There is great anxiety that they must change the rules of the system before the system changes them; therefore, they have placed revisionist intentions at the very core of their diplomacy (Kagan 1997). Robert Gilpin would consider this a

natural state of affairs, as all nations “will seek to change the international system through territorial, political, and economic expansion until the marginal costs of further change are equal to or greater than the marginal benefits” (Gilpin 1983, 10). Once a rising power, such as China, had obtained equal “great power” status with the United States in the global community, it could set about changing some of the “rules of the road” to better reflect its own interests and preferences within the system (Khalilzad et al. 1999, 19-20).

While the Chinese may recognize that the United States could remain the dominant power within the international community well into the foreseeable future, it is also highly probable that they see multipolarization as a way to reduce U.S. influence throughout Asia in the interim (Khalilzad et al. 2001, 17). Evidence of this was demonstrated in 1997 when Chinese leaders, complaining of U.S. “gunboat diplomacy” in Taiwan, successfully incorporated statements favoring “multipolarity” and resistance to “hegemonism” into a joint communiqué by Chinese President Jiang Zemin, Russian President Boris Yeltsin, and French President Jacques Chirac (Khalilzad et al. 1999, 10; Nye 2002, 18). In any event, there is a vast amount of literature in agreement that the primary objective of Chinese policy is replacement of the current international system with a multipolar one in which they will be one of several great powers with equal stature (Khalilzad et al. 1999, 10).

### Interdependence

While realist theory suggests a rising China will behave more aggressively, an alternate theory exists that counters this argument. A great deal of contemporary liberal international relations theory is concentrated upon the subject of interdependence within

the field of geoeconomics. The cornerstone of interdependence is derived from the notion that economic and technological strength within the modern world has become increasingly dependent upon the ability to take advantage of the increasing globalization of the world economy (Khalilzad et al. 1999, 25-26). Specifically, the theory suggests that membership within such international institutions as the WTO will be a crucial factor toward curbing aggressive tendencies of its member states. According to this view, unless a nation is willing to fall behind the rest of the international community (as China was before it instituted its economic reforms in the 1970s), it must be prepared to give up a certain amount of its sovereignty within the rules governing supranatural forums if it is to remain viable in the emerging international order (Khalilzad et al. 1999, 25-26; Nye 2002, 18-22). Thus, a rising China will find it more beneficial to its self interests if it inhibits any tendencies toward aggressiveness; this is quite the opposite behavior that would have been seen as beneficial under earlier historical conditions or the rules of power politics.

Angel Rambasa provides specific example for the advantages of interdependence with respect to China's self interests. Rambasa is a senior policy analyst for RAND, which is a nonprofit institution with a well-respected reputation for analysis dedicated to the improvement of policy and decision making. He presented timely testimony before the Subcommittee on East Asia and the Pacific (U.S. House of Representatives) on Chinese trends and interests in wake of the events of 11 September 2001:

At present, China has a strong stake in maintaining good relations with its neighbors and with the United States and a stable environment in the Asia-Pacific region. From this perspective, any disruption in the patterns of international trade and investment in Asia could seriously damage China's ability to sustain high

rates of economic growth, which are key to its emergence as a major power and to its preservation of domestic political stability. (Rambasa 2001, 2-3)

While the stated advantages of interdependence to China are clear, to better understand this theory, it is necessary to discuss the specific disadvantages of a China that takes unilateral action within today's global environment.

### Unilateral Actions

Joseph Nye, former Assistant Secretary of Defense for Bill Clinton and a scholar with a well-established reputation as a liberal international-relations theorist, believes that left to its own devices, China might like to “force the return of Taiwan, dominate the South China Sea, and be recognized as the primary state in the East Asian region” (Nye 2002, 21-22). But he is quick to point out that Chinese leaders would have to contend with the constraints imposed by other countries as well as the impact this would have upon its own objectives of economic growth through its requirement for external markets and resources (Nye 2002, 21-22). While China might shun interdependence for unilateral action in order to reduce its vulnerability to external events, this would be tantamount to a neo-isolationist strategy--leading China to become a failed state due to lack of capital and resource in the long term. Although interdependence might explain why China would be reticent to take aggressive unilateral action, there is another important factor to consider: China could be less assertive or show restraint stemming from its current aversion to “predatory” hegemonic behavior (Swaine and Tellis 2000, 209). In other words, taking aggressive unilateral action would be acting in a manner consistent with the imperialist tendencies it often accuses of others. Whether Chinese actions are curbed by interdependence or its own attitudes on the assertive behavior, many authors contend that

at this moment China simply does not possess the power necessary to act unilaterally without fear of repercussion to its economic stability.

#### Limits of Interdependence Theory

Most realists argue that complex economic interdependence could actually increase the chances for assertive behavior because such interdependence will prompt preemptive responses to preserve national sovereignty (Swaine and Tellis 2000, 205). Many argue that increasing economic interdependence between Germany and Great Britain at the beginning of the twentieth century did not prevent World War I from occurring, while the United States and the Soviet Union remained at relative peace throughout the Cold War though there was little economic interaction between the two (Kaplan 2002, 106). Noted liberals have conceded that at a theoretical level it is still unclear what the relationship between economic interdependence and aggressive international behavior is (Swaine and Tellis 2000, 205). Applied to China, present-day research suggests only that complex economic interconnectivity may not be satisfactory enough to prevent a rising China from embarking on assertive strategies (Swaine and Tellis 2000, 206).

#### Conclusions on Interdependence

Robert Keohane and Joseph Nye have been two of the best advocates concerning what they term “complex interdependence.” They believe there is a lesson for classic realists to learn with respect to interdependence: While power, defined in terms of military capabilities, remains critical to survival within the international system, it would be a mistake “to focus too narrowly on the military dimensions of . . . power” (Nye 2002, 8). Both authors believe economic power has become much more important than in

decades past because economic objectives are at the forefront of values in advanced industrial societies (Keohane and Nye 1977, 226-227; Nye 2002, 7-8). Nye concedes that geoeconomics has not replaced geopolitics, but he does point to a clear blurring of the traditional lines between the two (Nye 2002, 8). Finally, both authors agree that the general theory of interdependence does not account for all situations when trying to predict behavioral relationships within the international system; these shortcomings were clearly delineated in the preceding paragraph on the limits of independence theory (Keohane and Nye 1977, 223-224).

### Three Behavioral Paths

When President Bush took office in 2000, he was briefed by Transition 2001, which is a bipartisan panel of about sixty American leaders in the areas of foreign and defense policy. Their job was to outline the most important national security challenges for the new administration. The following is a short excerpt from the briefing:

First, while China's importance is increasing, its future is still uncertain. It might remain on its current path of pragmatic modernization, recognizing that good relations with the United States are necessary because of our technological leadership, huge market for Chinese exports, military power, and influence around the world. However, China could take one of several others paths: It could become increasing unstable and even fragment; it could democratize and successfully overcome the potential problems associated with transition from authoritarianism to democracy; or it could remain authoritarian but externally become more aggressive, pushing for regional primacy and threatening important American interests in Asia. (Carlucci 2001, 43)

The remainder of the chapter will be concerned with exploring these varying paths since they may provide the best insight toward understanding China's current and future behavior within the international community.

### The Peaceful Path

Power politics to the contrary, contemporary Chinese behavior within the international community may be its most benevolent in decades. China was actively engaged in armed conflict during the offshore islands crises of the 1950s, the Sino-Indian and Soviet Union border wars of 1960s, as well as its “counterattacks” against Vietnam in the late 1970s (Khalilzad et al. 2001, 3). During the 1980s and 1990s, China’s behavior has been relatively nonviolent with the exception of its 1995 occupation of Mischief Reef in the Spratly Islands and its continual diplomatic or military posturing with respect to Taiwanese independence (Khalilzad et al. 2001, 18). Primary among its constructive achievements within the last decade are its cutting of all ties to communist insurgencies within Southeast Asia as well as the responsibility it has taken in facilitating the ongoing Party of Four Talks which are dedicated to the peaceful reunification of North and South Korea. Relationships between the principal belligerents of the 1995 Mischief Reef incident even appear to have calmed; in the year 2000, Chinese and Philippine leaders agreed to begin developing a basic code of conduct between the two with respect to their endeavors in the South China Sea region. With no current involvement in armed conflict of any kind throughout its region, it would appear the Chinese nation-state is fast becoming more prominent for its responsible actions on the international stage than anything else.

One reason for the relatively peaceful relations demonstrated by China may be the simple fact that they do not yet have the power to outright challenge the collection of advanced industrialized countries that occupy an elevated position in the international system. While China has experienced exceptional rates of growth over the last decade, it

still trails well behind the United States economically; the present American economy is roughly twice the size of China's (Nye 2002, 19). Until China acquires a great power standing, it will most likely continue to concentrate its policies predominately upon its region and its economy (Nye 2002, 19). In fact, most of the Chinese border states do not consider China an imminent threat to their sovereignty in the short term; the speculation being that China is either "unwilling or unable to throw its weight around in the region at any time soon" (Khalilzad et al. 2001, 18).

### The Path of Conquest

What if a rising China, fully cognizant of its growing power, began to demand its preferences within international politics (Swaine and Tellis 2000, 197)? The realist school would agree that rising powers will assert themselves because assertion often remains the only means by which they can change the existing system in their favor. Candidate great powers often surmise that it would be unlikely for them to receive the authority commensurate with their newly acquired power unless they did assert themselves within the international system (Swaine and Tellis 2000, 199). Arthur Waldron, a noted Sinologist, makes the following comparison, "sooner or later, if present trends continue, war is probable in Asia . . . China today is actively seeking to scare the United States away from East Asia rather as Germany sought to frighten Britain before World War I" (Waldron 1997). Whether this assertion is true or not, such conjecture based upon historical context can be difficult because there are typically as many examples for why something might take place as why it might not. Michael Swaine and Ashley Tellis, both Senior Political Scientists at RAND with a specialization in Asia-Pacific policy, have put forth four strong arguments within the realist context for why

they believe China might behave in a more assertive manner as it grows in power: fear, aspiration, irredentism, and greed (Swaine and Tellis 2000, 217).

### The Politics of Fear

As great power candidates grow in relative power, they will seek to protect their steadily growing assets from being stolen by all necessary means, including acts of aggression (Swaine and Tellis 2000, 217). All states want to build up their military capability for just this reason; “[t]he stronger a state is relative to its potential rivals, the less likely it is that those rivals will attack it and threaten its survival” (Mearsheimer 2001, 33). Unlike lesser powers, rising powers (with increasing capabilities) suddenly find themselves in a position to do something about their fear of attack. In Thucydides’s eternal tale of security competition, the Peloponnesian War was caused by the rise to power of Athens and the fear it produced in Sparta (Nye 2002, 7). Similar comparisons are made in the twenty-first century between a rising China and the fear it has created in the United States (Nye 2002, 7). Which side is the “aggressor” in this situation is unimportant in security competition; it is the belief in the inevitability of conflict that becomes one of its primary causes. Each side, believing it will end up at war with the other, will make preparations to defend itself (Nye 2002, 19). These preparations are then read by the other side as confirmation of its worst fears (Nye 2002, 19). Security dilemmas, such as these, arise because of the difficulty in sorting out the measures that states will take to defend themselves from the measures that increase their capacity for aggression (Swaine and Tellis 2000, 218).

Besides the self-fulfilling prophecies associated with security competition, there is another type of fear that could be specifically associated with China’s history: fear of

humiliation. Given the view of itself as having been victimized by the “West” during a century and one-half of “national humiliation,” China may seek to become a hegemon so as to protect itself from further violation at the hands of its former “aggressors” (Khalilzad et al. 1999, 70). Even if it does not seek hegemony, humiliation still explains in large part the overall defensive character of the country--the positive image this nation had of itself prior to “national humiliation” is one it has struggled ever since to get back. Whether Chinese fear is derived from the underpinnings of security competition or the country’s generally defensive nature with respect to Westerners, it seems clear that they worry about a United States bent upon preventing it from becoming a fellow great power (Mearsheimer 2001, 375).

#### Aspirations for Great Power Status

As great power candidates grow in relative power, they inevitably seek to advance their standing in the international system as a way to secure both prestige and play a larger role in the settlement of major issues within the international community (Swaine and Tellis 2000, 217). Achieving this status would allow China to have greater control over the rules that govern the international system. It would be fair to assess that given China’s declarations supporting multipolarity, it no doubt would prefer a greater say in shaping both its region and international institutions. However, Zalmay Khalilzad, newly appointed Special Presidential Envoy for Afghanistan and the former Director of the Strategy, Doctrine, and Force Structure program for RAND, believes “it remains unclear as to whether and to what degree China’s aspirations for regional great power status will require military dominance over its periphery” (Khalilzad et al. 1999, 25). Regardless,

the fact is that China appears to aspire to great-power status and that in itself may prove to be a source of conflict in the decades to come (Khalilzad et al. 2001, 7).

Joseph Nye has noted that making commentary on the “rise of China” is misleading; he believes the word “reemergence” would be more accurate, since in terms of its sheer size and vast history China (the Middle Kingdom) has long been a dominant power within Asia (Nye 2002, 19). Michael Swaine and Ashley Tellis summarize the historical significance of China’s self image as follows:

The combination of China’s long-standing geopolitical centrality in Asia, its high level of economic self-sufficiency, and its past economic, cultural, and political influence over the many smaller states, tribes and kingdoms along its periphery have produced a deep-seated belief in China’s political, social, and cultural preeminence in Asia. Indeed, throughout most of its long history, the Chinese state, as an organized bureaucratic, political-military institution, confronted no peer competitors. (Swaine and Tellis 2000, 13)

Unfortunately, modern events have not been so kind to the Middle Kingdom; many within China feel they have lost the cultural preeminence they once possessed. Causal factors include: loss of self-sufficiency; the failure to *keep up* with the advanced industrial nations within the international community; the collapse of Neo-Confucianism as its conceptual framework for the international order; and the difficulties associated with collapse of Communist ideology as the glue which was subsequently supposed to hold the nation together (Swaine and Tellis 2000, 15). All these factors have resulted in a stronger emphasis upon attaining the heightened stature of a great power, much like the nation had once achieved so long ago (Swaine and Tellis 2000, 15-16). To this day, the belief that China should enjoy some sense of preeminence among its neighbors remains relatively strong among both elites and ordinary Chinese citizens (Khalilzad et al. 1999, 24). What remains unclear is to what degree China’s aspirations for great power status

will require military dominance over its peripheral territories; even less clear is whether China’s self-image as a rising great power will require “the deliberate attainment of a superior military position on a global scale” (Swaine and Tellis 2000, 16).

### Irredentist Tendencies

As great power candidates rise in relative power, they sometimes use their newly attained capabilities to reacquire tangibles they once possessed or believe they possess (Swaine and Tellis 2000, 217). They will try to reacquire these tangibles before ownership of such can change hands due to false claims or the superior power of others (Swaine and Tellis 2000, 217). Many authors subscribe to the realist notion that China’s rapid economic growth, coupled with a steadily modernizing military, could prompt it to act more forcefully in pressing its territorial and sovereignty claims (Khalilzad et al. 2001, 6). This may be one explanation for China’s behavior within the South China Sea; it upholds that this region at its periphery is legally theirs. These claims are based upon historical usage, Chinese ship captains are said to have sailed across the South China Sea over 2,000 years ago (Valencia, et al. 1999, 20). Competing claims by six other countries, all with differing arguments, have only complicated the issue. For assistance with the legal basis of these claims, author Mark J. Valencia (*Sharing the Resources of the South China Sea*) will be essential to the analysis contained in chapter 3. One question for further consideration in chapter 3 is whether China will be content enough to work through strictly legal channels or if it would be willing to defend “its” territory regardless of the situation.

### Greed

As great power candidates grow in relative power, it is argued that they will acquire the resources necessary to appropriate those objects that they may have long desired but could not possess before they obtained their current capabilities (Swaine and Tellis 2000, 217). According to this reasoning, a militarily stronger China could appropriate contested resources within the South China Sea to fulfill its desire for greater economic growth and energy security. Robert Gilpin would be in general agreement with this thought process. In *War and Change in World Politics*, he contends that “throughout history a principal objective of states has been conquest of territory in order to advance economic, security and other interests” (Gilpin 1983, 23). Whether through fear, aspiration, irredentist tendencies or greed, a rising China would have formidable implications in the South China Sea and the international community.

### The Path of Collapse

Many observers within the academic, diplomatic, and environmental communities fear instability triggered by a collapsing rather than rising China (Nye 2002, 20). While some authors believe that China will reach a terminal juncture sometime within the next ten to fifteen years, Robert D. Kaplan, a correspondent for *The Atlantic Monthly* and best-selling author on foreign affairs, believes China is already at another level of instability (Kaplan 2002, 4). According to Thomas F. Homer-Dixon, Associate Professor of Political Science at the University of Toronto and renowned author of *Environment, Scarcity and Violence*, “[a] visitor gets the overriding impression that the country has a razor thin margin for error when it comes to basics such as energy, food and water” (Homer-Dixon 2001, 24). Many environmental and economic analysts seriously question

whether China possesses either the natural resources or economic capacity to sustain its population over time (Homer-Dixon 2001, 58). Severe environmental scarcities coupled with population pressures indicate that “there is little slack in the system to keep the effects of sudden, unanticipated shocks from propagating through [Chinese] economy and society” (Homer-Dixon 2001, 24). The potential collapse of China would have multidimensional causes and consequences across the economic, social, political, and environmental domain (Goldstone 1995, 35). The next several sections are dedicated to observations of leading authors on the probable causal factors of a collapsing China.

### Economic Concerns

For many China-watchers, the country’s remarkable economic achievements conceal an even greater predicament (Kaplan 2001, 25). According to economist Dwight Perkins of Harvard University, China owes much of its preliminary economic success with market reforms to the simplicity of the initial undertaking (Perkins 2000, 48). He argues that the development of a “rule of law” and satisfactory financial institutions to support its markets will be “measured in decades, not years or months” (Perkins 2000, 48). In moving towards a market economy, the government has often encountered the very worst of socialism (bureaucracy and lassitude) and capitalism (windfall gains and stepped-up inflation) (CAI 2001a). Beijing has periodically had to backpedal, retightening central controls at varying intervals to counter these influences (CAI 2001a).

The state has also struggled to collect the revenue due from its many provinces, businesses, and individuals (CIA 2001a). One example of this is seen in the corruption that runs rampant within many of China’s state-owned enterprises and their failures to successfully compete with privatized industry as already discussed. Because of these

issues, many SOEs are unable to turn a profit for the government and subsequently lose the ability to pay individuals their full wages and pensions (CIA 2001a). A vicious circle thus ensues as the government must further subsidize these same institutions to sustain their operation against continually rising competition.

The flaws of China's banking institutions are also well documented; all four state-owned banks have recently had charges of corruption leveled against them by both Chinese and international audit bureaus. China's most widely regarded foreign-exchange institution, the Bank of China, is currently under fire for allegations concerning the embezzlement of 725 million U.S. dollars by its bank officials over the past ten years (Lam 2002a). In addition to allegations of corruption, the banking sector is also troubled with a growing number of large nonperforming loans which are necessary to keep a number of China's state-owned enterprises in operation (Khalilzad et al. 2001, 138). A question that must be asked in regard to China's immediate future is whether its private sector will be able to progress rapidly enough to absorb those workers that would unavoidably be laid off in the course of restructuring China's SOEs and reforming its banks (Khalilzad et al. 2001, 138). Such reforms will be required to meet the high standards set for rules-based trading within the WTO; China became the 143rd member of the WTO on 11 December 2001.

Finally, China faces increasingly costly environmental problems, coupled with a high population growth rate, which greatly exacerbate the already huge capital demands faced by both the Chinese state and its economy (Homer-Dixon 2001, 24). In the end, many analysts agree that the high Chinese economic growth rates necessary to obtaining

eventual great power status are absolutely unsustainable over time (Swaine and Tellis 2000, 184).

### Social Concerns

Despite China's notorious reputation for population control, Robert Kaplan states that “[i]t is a dangerous misperception that China has its population growth rates under control” (Kaplan 1997, 298). The July 2001 estimates place China's current population in excess of 1.27 billion people (CIA 2001a). Thomas Homer-Dixon points to market liberalization in rural areas for undermining the state's one-child policy (Homer-Dixon 2001, 21). He argues that state coercion is far less effective in the countryside, allowing locals enriched by market reforms to afford the fines levied against them for having too many children (Homer-Dixon 2001, 21). The farther removed families are from coastal China and corresponding state control, the more children are being born per family. Minority western provinces, such as Xinjiang, are recording rates as high as two or more children per family (Kaplan 1997, 298-299; Homer-Dixon 2001, 21). If current projections hold true, the United Nations estimates the Chinese population will grow to 1.48 billion by 2025 (Homer-Dixon 2001, 22).

### Regional Disparities

A growing concern for outside observers is the widening gap between China's coastal and inland provinces. As Thomas Homer-Dixon has noted, most experts on China have been so distracted by the spectacular economic boom taking place within the country's coastal areas that they have tended to project these trends onto the rest of the country (Homer Dixon 2001, 21). What is quite clear is that China's inland provinces have been excluded from the economic success that the Chinese state is experiencing.

Homer-Dixon does not believe the high economic growth rate will ensure Chinese ascendancy to world power; what he believes is that coastal China, where its economic growth is occurring, is simply joining the rest of the Pacific Rim (Kaplan 2001, 25).

Meanwhile, inland provinces continue their descent into crime and abject poverty. In a trend seen time and time again in such places as Africa, conditions like these within a land recognized for “a strong tradition of warlordism and a weak tradition of central government,” can lead to conflict and collapse (Kaplan 2001, 26).

#### Large-Scale Population Movement

A result common to regions of internal unrest has been observed in the form of large-scale migrations within China. Migrations due to widening economic growth disparities not only occur between the coast and the interior, but between the cities and countryside as well (CIA 2001a; Kaplan 1997, 298). The combination of both are manifested in the mass circular migrations, from 80 to 120 million plus, that constantly shift between rural villages and coastal cities in the hopes of better economic prospects (CIA 2001a; Homer-Dixon 2001, 23). Makeshift shantytowns, near-city outgrowths of such migrations, have seen a weakening of the central governments control over the “rule of law” at its peripheries.

#### Political Concerns

Many Asian states see authoritarianism as a necessity for continued political stability and economic success (Khalilzad et al. 2001, 5). Given the fact that a majority of these developing countries has yet to establish a sizable middle class, substantial literacy rates or mature “rule of law,” it could be argued such places are *not* ready for any other form of government than an autocratic one. The weakness of China’s current

political system lies in its precarious balance between autocratic governance and democratic (market) reform. In the wake of the Cultural Revolution, Communist ideology no longer provides a common bond for the nation; in fact, it enjoinders little popular support within China (Homer-Dixon 2001, 24). While its leaders may exercise tight central control over the Chinese public, it is noted by several authors that these same leaders have also lost a substantial amount of “moral authority” as its citizens become increasingly self-aware of the outside world (Homer-Dixon 2001, 24). Many authors believe the legitimacy of China’s national government now rests primarily upon two distinct pillars: continued economic growth and nationalism; some authors, like Homer-Dixon, believe Chinese nationalism is composed of multiple issues, not the least of which include the issue of “several small groups of tiny islands in the South China Sea” (Homer-Dixon 2001, 25).

### Environment Concerns

Robert Kaplan calls the environment, “*the* national security issue of the early twenty-first century” (Kaplan 2001, 19). While the Cold War focused many on competing ideologies as a causal factor for conflict, there are also those that believe this period was merely an aberration and that conflict throughout time has always been about competition for resources (Klare 2001, 25). Most realists would agree that ideology merely “warps” the more important issues concerning security competition; however, there are a few authors that believe realist theory also falls short in explaining security behavior (Davis 2001, L1-C-6). Thomas Homer-Dixon describes these shortcomings as such:

[In realism], state behavior--including conflictual behavior--is mainly a function of the structure of power relations among states in the system, not of events or pressures operating inside these states. Because environmental scarcity's most important social effects unfold inside countries, realism therefore encourages scholars to ignore or downplay the consequences of environmental problems for peace and conflict. If these scholars do consider environmental problems, they focus disproportionately on simple-scarcity conflicts among states over "strategic" environmental resources such as water. (Homer-Dixon 2001, 228)

There are many that would agree that the environment has sometimes taken a "back seat" to power politics in the analysis of strategic studies. Robert Kaplan, in *Warrior Politics*, offers that the works of Thomas Robert Malthus be remembered (Kaplan 2002, 91-94). Malthus, born in 1766, was arguably the first philosopher to focus on the political effects of "poor soils, famine, disease, and the quality of life among the poor" (Kaplan 2002, 91, 93). To provide well-rounded analysis, the next couple sections will be devoted to a broad overview of certain environmental challenges facing China based upon "Malthus' tenet that ecosystems have a direct impact on politics" (Kaplan 2002, 94).

### Water Concerns

Water shortages in China's northern and western provinces are at a critical juncture; it is argued that development within these areas is constrained in direct relation to the shortages (Homer-Dixon 2001, 22). Reasons given for the shortages are: loss or contamination of water supplies; the degradation or destruction of irrigation systems and reservoirs through the build up of silt; and the growing exhaustion of once abundant deep-water wells (Kaplan 1997, 25). China's irrigation problems are further complicated by the increased occurrence of artificial fertilizers and industrial wastes that are tainting its irrigation water. This has fostered a vicious cycle in which already meager sources of

clean water are being used on a more and more frequent basis to *cleanse* tainted water, as well as tainted soils. Increased irrigation has rapidly dropped the underground water table to unacceptable levels; the water table in some provinces of northern China is falling by more than a meter a year (Homer-Dixon 2001, 22). Evidence of the cumulative effect this has is demonstrated throughout China, where more than forty major cities are beleaguered by drinking water shortages (Kaplan 1997, 299).

While the water table levels drop in the cities, Vaclav Smil, author of *China's Environmental Crisis: An Inquiry into the Limits of National Development*, sheds light on a contradictory situation that is developing. He observes that the widespread use of dams to facilitate irrigation has created a condition in which “10 percent of Chinese territory--inhabited by two-thirds of the population producing 70 percent of China’s economic output--is below the flood level of major rivers” (Smil 1997, 38-44, 46-49). The potential consequences of a flash flood due to extensive rains could be far more tragic for the Chinese populous and its economy than compared to the relatively “slow” dropping of its water table. Whether troubles will come from flooding or a drop in water table, senior Chinese officials have readily admitted that such water problems, if not solved, will eventually cap their economic growth (Homer-Dixon 2001, 23).

### Land Concerns

Drastic loss of arable land over recent decades has become a serious problem for the Chinese population; the country is rapidly losing the capacity to feed itself. The problems resulting from irrigation have been mentioned above. The widespread use of artificial fertilizers to coax greater growth from depleted soils has not met with particular success; Chinese crop yields in many provinces have most likely reached their attainable

limit (Kaplan 1997, 299). As the population grows, per capita availability of arable land within interior China continues to decline (Kaplan 2001, 25). Additional causes for the rapid decline in arable land include: the encroachment of urbanization, lands cleared for a growing transportation infrastructure, loss of topsoil, deforestation, desertification, and increased salinization (CIA 2001a; Homer-Dixon 2001, 22-23). Of the world's most populous countries, only Bangladesh and Egypt have a lower per capita availability of arable land (Kaplan 1997, 299). Many view Chinese agriculture as having entered the last stages of unsustainable development; the question will be whether China can import enough food to overcome potential shortages for a population numbering over a billion strong (Swaine and Tellis 2000, 184). Whether food or water will be the biggest challenge that China faces in the coming decades is unclear, what is perhaps more certain is that the environment may have the final say as to China's survival or collapse.

#### Potential Outcome of Collapse

Thomas Homer-Dixon has made some key observations that sum up the trials China must face in becoming an industrialized society at a time when there are fewer resources in the world to support such an undertaking. He writes:

In a land of scarce environmental resources and a still-expanding population, rapid economic growth is essential to provide capital, jobs, and know-how. But this rapid growth itself often worsens the country's underlying resource scarcities and environmental problems, and these problems, in turn, threaten growth. Whether and how China breaks out of this vicious cycle will shape much of human history for decades, if not centuries, to come. (Homer-Dixon 2001, 25)

While this may present a gloomy outlook of the future, an even more ominous consideration must be made. What if China, after decades of positive economic growth, did in fact collapse? Michael Swaine and Ashley Tellis point out that in modern times

only Iran has experienced such growth in wealth only to be followed by “traumatic revolutionary collapse” (Swaine and Tellis 2000, 186). This outcome in China would not only be catastrophic due to the grand scale of such a problem on an economic, social, or political level, but because this once potential great power would also have nuclear capability within its crumbling society (Swaine and Tellis 2000, 186). Though this thought should remain on the minds of conscientious students of strategic studies; at present, such an outcome is judged to be remote by most sinologists (Swaine and Tellis 2000, 187).

### Conclusion

At the beginning of chapter 1 it was suggested that China was the battleground for the competing theories of international relations. As realist John Mearsheimer has noted, there is “an anxious realism about China’s strategic intentions” within the region (Mearsheimer 2001, 376). A mini-synopsis of the issues given future concern is contained within Angel Rambasa’s testimony before the U.S. House of Representatives quoted earlier:

Thus, for the present, we can anticipate that the Chinese will continue their step-by-step tactics and ambiguous use of force in the South China Sea to increase their presence in disputed areas. The Chinese have been adept at camouflaging their political-military operations in ostensibly innocuous garb - for instance, the construction of so-called “fishermen’s shelters” on Mischief Reef, which is claimed by the Philippines. Nevertheless, China’s intentions, ambitions, and operating style could change over time. As China’s power grows, other determinants of Chinese behavior, including the desire for regional hegemony, could lead to a more aggressive challenge to the regional status quo. (Rambasa 2001, 3)

A common theme throughout this testimony, in fact throughout much of the literature reviewed, is this: How will China behave as its power increases? (Nye 2002,

22). Most authors would admit that this is still an open question. As Hans Morgenthau would remark about such discussion, “the complexities of international affairs make simple solutions and trustworthy prophecies impossible (Morgenthau 1968, 21).”

## CHAPTER 3

### AREA ANALYSIS

#### Introduction

Chapter 3 is divided into three primary sections: Policy, Resource, and Sovereignty. The purpose of each section is to provide analysis of a specific subordinate research question. These sections will be the building blocks upon which the primary research question can be answered. Before an analysis of the policy section commences, brief descriptions of the South China Sea and Spratly Islands are provided for orientation.

#### The South China Sea

The South China Sea adjoins several of the most dynamic and powerful countries within Asia (figure 1) (Klare 2001, 109). Its waters encompass a portion of the Pacific Ocean stretching from Singapore and the Strait of Malacca in the southwest, to Hong Kong and the Strait of Taiwan in the northeast (USDOE EIA 2001b). The region is comprised of hundreds of islets, rocks, and reefs; the majority of which is located within the Paracel and Spratly Islands (USDOE EIA 2001b). Long recognized as a prominent crossroad for seaborne commerce, these waters are also thought to rest upon substantial reserves of oil and natural gas (Klare 2001, 109). While the South China Sea is much greater in area than either the Arabian Gulf or Caspian Sea, it is similar to both these regions in two key respects: its undersea resources are subject to overlapping and contested claims, and the countries involved in these maritime disputes appear prepared to employ military force in the defense of what they arguably view as vital national interests (Klare 2001, 109). No other area within the South China Sea best exemplifies

this resource competition than those activities which take place in the Spratly Island archipelago.



Figure 1. The South China Sea Region. *Source:* Storey 1999-2000, 112.

### The Spratly Islands

The Spratly chain is comprised of a mere twenty-five to thirty islets that remain above water at low tide, the remainder of its 400 or so features are typically classified as submerged reefs (Valencia et al. 1999, 5). Although this chain stretches for hundreds of

miles across the South China Sea, its total land area is less than three square miles (USDOE EIA 2001b). These “islands” have no indigenous inhabitants, nor have they ever supported any type of lasting economic activity (Valencia et al. 1999, 5-7). Despite such facts, the Spratly Islands have become the fulcrum for intense energy competition and conflicting claims within the Asia-Pacific region (Klare 2001, 112). This is primarily because the Spratly seabed is thought by some to contain the greatest concentration of oil and gas reserves within all the South China Sea, while their islets provide potential grounds for sea-lane defense (Valencia et al. 1999, 7). Once considered little more than a hazard to navigation, these “fly-speck” islands have become of strategic importance to multiple countries in the region because their possession could be used to legitimize claims to the surrounding sea and all its resources (appendix A, table A1) (Klare 2001, 112).

#### Sea Lines of Communication

To complete orientation on the region, a word must be mentioned about the crucial sea routes that pass through this area. Southeast Asia lies at the intersection of the two most heavily traveled SLOCs in the world: the East-West route, which connects the Indian and Pacific Oceans; and the North-South route, which links Australia and New Zealand to Northeast Asia (Khalilzad et al. 2001, 35). Several Asian countries are vitally dependent upon the import and export of vital resources located elsewhere in the world, almost all of which must travel by ship through the South China Sea to get to their final destination (Klare 2001, 111-117). Nearly one-half of the world’s merchant fleet capacity presently sails through the SLOCs of the South China Sea and the waters surrounding Indonesia (Khalilzad et al. 2001, 35). Approximately two-thirds of the

tonnage that transits the Strait of Malacca (separating Indonesia and Malaysia) and one-half of the volume passing the Spratly Islands is crude oil from the Arabian Gulf (USDOE EIA 2001b). China's main sources for *overseas* oil include: Oman, Yemen, Iran, Saudi Arabia, Russia, Indonesia, and Angola (Farr 2001). Virtually all of this oil, with the exception of that from Russia and Indonesia, travels by tanker across the Indian Ocean, through the Strait of Malacca, and diagonally across the South China Sea (Klare 2001, 117).

Much depends on these waterways. The flow of oil through the Strait of Malacca into the South China Sea is three times greater than that through the Suez Canal and is fifteen times greater than the oil that flows through the Panama Canal (USDOE EIA 2001b). The rising Asian oil demand is predicted to almost double the flow of oil through the South China Sea over the next two decades (USDOE EIA 2001b). A closure or prolonged blockade of any of the Southeast Asian SLOCs would thus seriously disrupt shipping markets and international trade, and at least in the short term, place severe pressure on the economies of region (Khalilzad et al. 2001, 35; Noer 1996). Since the countries adjoining the South China Sea share a significant interest in the security of its maritime trade routes, these states will naturally seek to prevent any threat to the continued flow of resources (Klare 2001, 111, 118).

This brief orientation to the region highlights the economic potential and geopolitical importance of the South China Sea. To better understand the complexities of resource competition between its surrounding nations, the next section will discuss the geopolitical context of the issue. Specifically, Chinese policy within the region will be

discussed--a policy that explicitly demonstrates unclear direction but may allude to some extremely clear implicit objectives.

#### Research Question 1: Chinese Policy in the South China Sea

China is *the* key player in the region by virtue of its rising diplomatic, military, and economic power; unfortunately, it has become just as prominent for its sweeping undefined claims and related aggressive actions (Valencia et al. 1999, 77). China's strategy within the South China Sea appears to be simultaneous application of several interrelated concepts: to strengthen its naval capability; to enhance its physical presence, thus legitimizing its occupations; to attract Western oil companies for exploration in disputed areas; and to insist on and conduct bilateral diplomacy with the other claimants whenever possible (Valencia et al. 1999, 77). When it comes to the Spratly issue Specifically, Beijing seems to have settled upon a “three no’s” policy--no specification of claims, no multilateral negotiations, and no internationalization of the subject, including no involvement by outside powers, such as the United States (Valencia et al. 1999, 77). Evidence of this position is apparent in its waffling at the Indonesian-sponsored peace workshops, the inconsistencies of its rhetoric and actions, and its similar position on the Diaoyutai (or Senaku) islands in the East China Sea which are claimed by both China and Japan (Valencia et al. 1999, 77). These are just some of the issues that will be analyzed in further detail within the policy section. In subsequent discussion, the overall objective will be to determine whether actual or declared Chinese policy supports the argument that access to the South China Sea is a vital interest to its future energy security.

### A Dichotomy of Word and Deed

There have been a number of clashes over the control of specific islands and reefs within the South China Sea (Klare 2001, 122). In general, these incidents have involved the pursuit and capture of fishermen from one country said to be working fishing areas controlled by another country (Klare 2001, 122). There has been several occasions, however, where the situation has turned far more violent. To understand the current ambiguity in Chinese policy on the South China Sea, one must look back to events as they unfolded in March 1988.

It was during March 1988 that Chinese forces seized control of six small islands long claimed by Vietnam; the most prominent of these captured “islands” was Fiery Cross Reef in the Spratlys (Klare 2001, 123; Valencia et al. 1999, 22). In the naval engagement that followed, three Vietnamese vessels were sunk and seventy-two sailors were killed (Klare 2001, 123). This marked the first use of military force by the People’s Republic of China (PRC) in the Spratlys; it also marked the first action in which Chinese naval forces operated in an offensive mode outside of their coastal waters (appendix A, table A2) (Klare 2001, 123).

On 13 August 1990, former Premier Li Peng made an announcement in Singapore that China was prepared to put aside the question of sovereignty over its captured islands and jointly develop the Spratlys, thus appearing to set the stage for resolution of the conflict (Valencia et al. 1999, 78). Indeed, all claimants had agreed at an Indonesian-sponsored workshop, held at Bandung in 1991, to resolve their differences peacefully and to avoid future unilateral actions that would jeopardize the process (Valencia et al. 1999, 78). Unfortunately, subsequent Chinese actions to strengthen its naval and air capacity in

the South China Sea area (i.e., acquisition of aerial refueling technology and talk of purchasing an aircraft carrier from the Ukraine) damaged the overall spirit of the agreement (Valencia et al. 1999, 78).

Then in 1992, China's top legislative body, the Standing Committee of the National People's Congress, formally proclaimed Chinese sovereignty over the entire Spratly archipelago (figure 2) (Klare 2001, 121). This measure, known as the *Law on Territorial Waters and Their Contiguous Areas*, thus "set in concrete" the Chinese claim to territorial sovereignty over the Paracel and Spratly Islands (Valencia et al. 1999, 78). The law also empowered the People's Liberation Army (PLA) to employ force if required to defend the islands against foreign attack or occupation (Klare 2001, 121).

Beijing quickly followed up its declaration by granting an energy concession near Wan'an Bei in the Vanguard Bank area to the Crestone Energy Corporation of Denver (Valencia et al. 1999, 78). This concession lies within the southernmost part of the Chinese claim outlined in figure 2, and is also well within the 200 nautical mile exclusive economic zone (EEZ) claimed by Vietnam (the official definition of an EEZ will be covered within the Sovereignty section). To deter any outside interference, China formally assured the chairman of Crestone that they would protect the corporation with their full naval might (Klare 2001, 123). While Chinese representatives downplayed these questionable actions at the third Indonesian workshop for peace, it simultaneously dispatched fresh troops to its six captured islands (Valencia et al. 1999, 79). In addition, Chinese troops were deployed to erect a sovereignty marker on the Vietnamese-claimed Da Lac Reef, the nearest above-tide feature to the Crestone energy concession (Valencia

et al. 1999, 79). By this time, a clear dichotomy had established itself between China's words and its deeds (Valencia et al. 1999, 78).

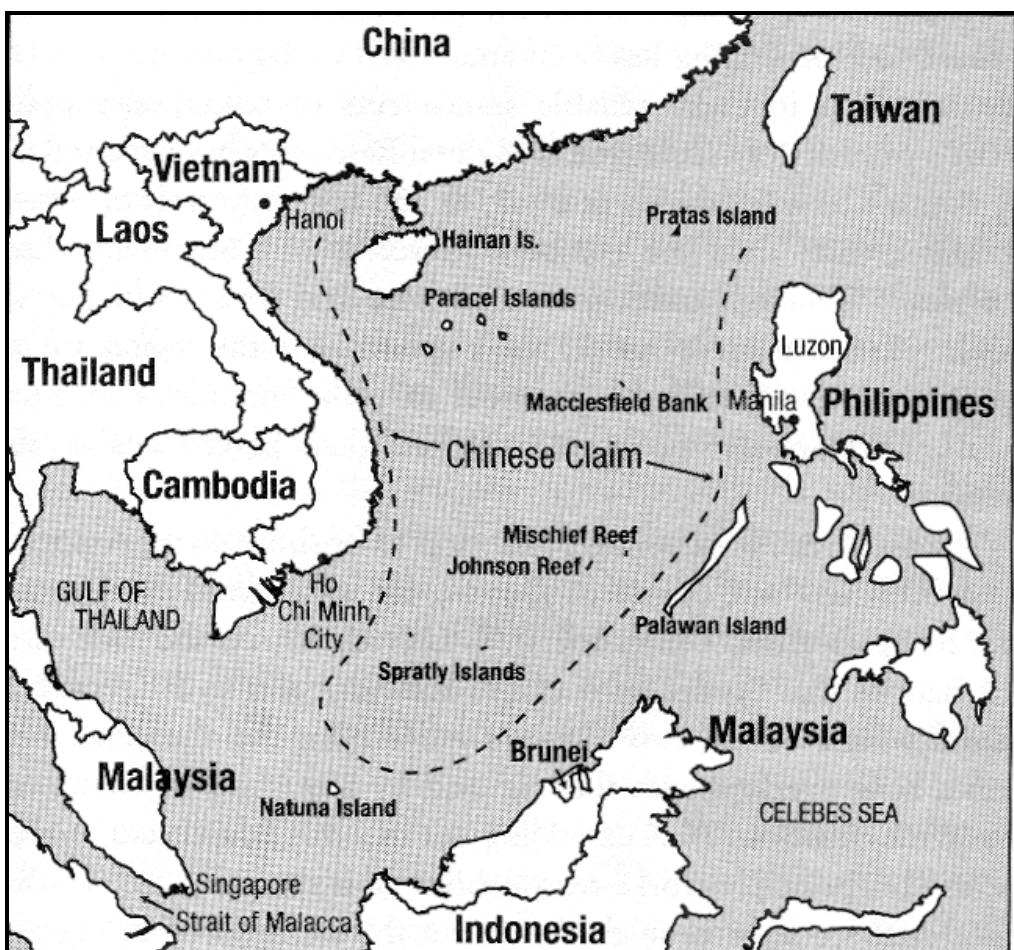


Figure 2. The South China Sea Region. *Source:* Klare 2001, 120.

The situation was escalating so rapidly that the Association of South East Asian Nations (ASEAN), which includes all South China Sea nations except for China and Taiwan, felt compelled to adopt a more active role within the region (USDOE EIA 2001b). Prior to 1992, ASEAN had primarily provided a forum for promoting regional

economic growth, as well as the exchange of social and cultural ideas between its members (Rosenberg 2002, 7). In response to Beijing's actions, ASEAN promulgated its first-ever formal declaration relating to regional security (Valencia et al. 1999, 79). This 1992 pronouncement, known as the *ASEAN Declaration on the South China Sea*, "urge[d] all parties concerned to exercise restraint with view to creating a positive climate for the eventual resolution of all disputes" (Khalilzad et al. 2001, 37).

While China pledged to honor this declaration, it subsequently deployed three Romeo-class submarines from its North Sea Fleet to the South China Sea with a mission to patrol the disputed areas (Valencia et al. 1999, 79). This maneuver raised the suspicion that China was simply using the Indonesian-sponsored workshops and its declared intentions of peace concerning ASEAN as a stall for time while it consolidated and enhanced its position within the Spratlys (Valencia et al. 1999, 79). After concern was raised over the issue of its deployed submarines, Beijing subsequently reiterated its 1990 suggestion to put sovereignty issues aside and carry out joint development--particularly to Malaysia and the Philippines; but these suggestions were no longer taken seriously, because China still refused to soften its exclusive claim to the area and to recognize the legitimacy of any other claims (Valencia et al. 1999, 79).

The situation worsened in July 1994, when China began to distribute a map claiming all the Spratly Islands and indicating to outside investors that it did in fact claim the entire South China Sea (Valencia et al. 1999, 27). Indonesia, the original sponsor of the three workshops for peace, reacted very negatively to this development; the Chinese claims appeared to cover the Natuna gas deposits, which were being developed by Exxon for Indonesia (Valencia et al. 1999, 27). An uneasy "peace" continued until 1995. To

this point, all the clashes in the South China Sea involving military action had occurred between China and Vietnam (Klare 2001, 123-125). Most Western analysts had concluded from this observation that China would restrict its military activities in the South China Sea to attacks on the Vietnamese (Vietnam was still isolated from the rest of the international community at this time) while avoiding armed aggression with all other claimants to the Spratly Islands (Klare 2001, 123-125). This observation would be discredited by February 1995, when the Philippines discovered that China had constructed a small military outpost on Mischief Reef (Meijijiao/Panganiban), located less than 150 nautical miles from Palawan Island and well within the EEZ claimed by Manila (Klare 2001, 123-125). This provoked a series of naval clashes and diplomatic crises that altered the entire strategic equation in the South China Sea (Klare 2001, 123-125).

#### Mischief Reef

The incident involving Mischief Reef may have had its origins in September of 1994, when Philippine armed forces detained some fifty-five fishers from the PRC for trying to set up homes on one of the Philippine-claimed islands (Valencia et al. 1999, 79). In January 1995, China appeared to reciprocate the act by detaining thirty-five Filipino fishers for a week in an area of the Spratlys claimed by the Philippines and called Kalayan (Valencia et al. 1999, 79). The Mischief Reef incident exploded on 8 February 1995 when the Philippines discovered the aforementioned military outpost on that reef and demanded Beijing withdraw its armed forces from the area immediately (Klare 2001, 123-125). Chinese officials denied the structures on Mischief Reef were anything more than shelters for fishermen, but experts analyzing the photographs determined the

structures were characteristic of most guard posts (including a satellite dish) with each structure topped by a Chinese flag (Klare 2001, 125; Valencia et al. 1999, 80). For the Philippines, the purpose of the structures seemed clear; they demarcated territory and were a means of establishing control of the island through occupation (Valencia et al. 1999, 80).

Philippine President Fidel Ramos subsequently conducted a nationally televised interview charging that Beijing's actions were inconsistent with the spirit of the 1992 *ASEAN Declaration on the South China Sea*; the Philippines claimed that China, although not a signatory, nevertheless had pledged respect for the declaration of peace (Valencia et al. 1999, 80). Manila then sought to gain diplomatic support to reclaim Mischief Reef by appealing to ASEAN, many of whose members, like the Philippines, also claimed portions of the Spratlys or had alternative reasons for fearing Chinese actions within the region (Klare 2001, 125). The Philippines knew well that its relatively small and antiquated armed forces were weak in comparison to the Chinese, thus Manila's basic strategy was to depict this struggle as a multilateral--not a bilateral--issue (Valencia et al. 1999, 81). In addition to appeals for sympathy and support from ASEAN, the Philippines also engaged the international community by threatening to take the issue to the United Nations Security Council and to the International Court of Justice (ICJ) (Valencia et al. 1999, 81). The Philippines failed to realize that, as a member of the Security Council, China could veto any of its proposed resolutions and that the ICJ could not adjudicate if China chose not to accept its jurisdiction (Valencia et al. 1999, 81).

Shortly thereafter, Manila sent a group of ships into the Spratlys area to investigate any further transgressions but was driven off by Chinese warships (Klare

2001, 125). Although China soon acquiesced, withdrawing seven of its nine vessels to a location outside the Philippines' 200 nautical mile EEZ, they left all structures in place on the islands they had come to occupy (Valencia et al. 1999, 81). Manila and Beijing agreed to talks in March 1995, despite the Philippine's reluctance to enter into bilateral negotiations for joint development of their overlapping areas (Valencia et al. 1999, 81). Unfortunately, Manila felt it had little choice but to conduct bilateral negotiations in the wake of U.S. unwillingness to come to the Philippines defense on a regional issue. This was because the U.S. had declared that the Mischief Reef incident did not constitute an attack on the Philippines mainland and therefore did not meet Mutual Defense Treaty requirements for American intervention on the Philippines' behalf. To make matters worse, a day before the bilateral talks were to commence, the Philippines discovered that China had erected new facilities on Jackson Atoll and Half Moon Reef, only seventy nautical miles west of Palawan (Valencia et al. 1999, 81).

Not surprisingly, the talks did not produce an agreement. Manila said it destroyed all Chinese sovereignty markers in the area immediately after the talks concluded; the Chinese warned that such destruction would not help settle the dispute nor detract from China's sovereignty over the area (Valencia et al. 1999, 81-82). On 25 March, Chinese encroachment continued with Filipino troops arresting four more Chinese fishing boats and some sixty-two Chinese citizens near Half Moon Shoal, just fifty nautical miles from Palawan (Valencia et al. 1999, 82). Two days later, Beijing formally demanded the release of the arrested fishing vessels and their crews, but Manila responded by arranging a visit of foreign journalists to the disputed area to see for themselves that Chinese transgressions were a reality in the region. Based upon these incidents, Beijing warned

that it would exercise “limitless tolerance for encroachments on China’s sovereignty and dignity;” it further cautioned that Manila “must bear full responsibility for any . . . consequences” (Valencia et al. 1999, 82). A violent clash, along the lines of the deadly China-Vietnam conflict at Fiery Cross in March 1988, seemed imminent.

In July 1995, at its first annual ASEAN Summit in Brunei, the Foreign Ministers of ASEAN condemned the use of military force in the South China Sea and called on all states involved to settle their differences through diplomatic vice military efforts (Klare 2001, 125). In response, China promised to pursue a negotiated solution to its dispute with the Philippines and to avoid any future use of force (Klare 2001, 125). Indeed, Chinese Foreign Minister Qian Qichen declared China would be willing to use international law and the 1982 *United Nations Convention on the Law of the Sea* (*UNCLOS*) as a basis for negotiating sovereignty issues and that it would openly discuss these issues with all seven members of ASEAN (Valencia et al. 1999, 88). The thought of Beijing joining roughly ninety of the world’s nations in ratifying and implementing the *Convention* was thought a significant act for its time (Valencia et al. 1999, 88). With this meeting, held in a multilateral forum no less, it appeared that the Mischief Reef incident had finally reached a conclusion.

#### A Code of Conduct

Multilateral forums and agreements notwithstanding, Beijing returned to its policy of bilateral negotiation in August of 1995, when China and the Philippines announced a code of conduct that would reject the use of force to settle their dispute; the code declared that such “disputes shall be settled by the countries directly concerned without prejudice to the freedom of navigation in the South China Sea” (Valencia et al. 1999, 88). Not only

did the Chinese declare they would not infringe upon the freedom of navigation rites of others, in May of 1996 it backed up its words by ordering the People's Liberation Army Navy (PLAN) to steer well clear of the Spratly Islands in a show of goodwill (Valencia et al. 1999, 88). The concept of a code of conduct within the region was expanded upon in June of 1996, when an ASEAN-China dialogue in Bukittinggi, Indonesia, developed a joint China-ASEAN code of conduct based upon several proposals put forth by Beijing itself (Valencia et al. 1999, 88-89). To date there have been no reoccurrences of violent military action within the region, although tension does continue to exist over Chinese rhetoric.

#### Continued Tensions

Despite improved dialogue and a cease in major clashes, concern over China's intentions and policy still exists. Chinese Foreign Minister Qian Qichen has continually reasserted the Chinese claim to undisputed sovereignty over the Spratly islets and its adjacent waters, while inferring that China's national laws concerning sovereignty over the islands would play a future role in resolving the issue (Valencia et al. 1999, 89). Further ambiguity in the Chinese position occurred in May 1996, when China announced baselines which enclosed the Paracel islands, a clear contravention of its statement to abide by *UNCLOS* (Valencia et al. 1999, 89). At the same time, China has disdained any inclination to surrender Mischief Reef (or any other contested island under its control) to rival claimants (Klare 2001, 125). Indeed, China has reinforced Mischief Reef with additional military structures (1998) and established a military presence on islands encroaching even closer to established Philippine territory than Half Moon Shoal (fifty nautical miles) (Klare 2001, 126).

Finally, April 2001 signaled a potential return to aggressive action (one aimed at a country outside the region), when an American EP-3 and a Chinese fighter collided south of China's Hainan Island. Although the incident occurred within 200 nautical miles of China's coast, the EP-3 was well outside of internationally recognized territorial waters, operating within international airspace. The incident stands out for many reasons, maybe none more so than because issues within the South China Sea were truly "internationalized" for the first time due to the global "prestige" of its belligerents.

#### Analysis of Past Policy

There have been many hypotheses offered to explain China's actions within the South China Sea; complicating the matter is the probability that China has in all likelihood acted according to different motives at different times (Valencia et al. 1999, 82). Perhaps the most prominent explanation for Beijing's past actions is found in the domestic politics that underlie all its decisions (Valencia et al. 1999, 85).

One observation holds that Beijing may simply be demonstrating to its more assertive provinces (and to the democracy movements in China and Hong Kong) that it is firmly in control of its national policy (Valencia et al. 1999, 85). This logic can also be applied to the independence movements on Taiwan, as the state arguably continues to consolidate its borders and control its claimed areas as part of its drive to reestablish "Greater China's" historical role as the dominant power in Asia (Valencia et al. 1999, 84). Another observation claims that China's actions are the result of a rising tide of nationalism which may replace socialism as the new moral glue binding its society (Valencia et al. 1999, 85). In this context, while the economic reforms pursued by Deng Xiaoping and Jiang Zemin may have put China's conservatives on the defensive, the

application of nationalistic ideals, such as sovereignty over the Spratly Islands, has provided a means for conservatives to reassert themselves (Valencia et al. 1999, 85). Others see the nationalism issue as a simple tradeoff between the “reformers” and conservatives--a more assertive policy in the South China Sea has been accepted in exchange for what has been termed the “Coca-Cola-ization” of China’s economy (Valencia et al. 1999, 85).

The passage of China’s 1992 *Law on Territorial Waters and Their Contiguous Areas* might be seen as a reflection of the divergent interests involved between reformists and conservatives (Valencia et al. 1999, 85). It is believed that the PLA may have pushed this law through while the Chinese Foreign Ministry and its leadership were preoccupied with other matters; in this explanation, the Foreign Ministry advocated shelving territorial disputes and cooperating with joint development in the South China sea, while the PLA advocated taking the territory now for exploitation later (Valencia et al. 1999, 85). Either way, the Ministry of Foreign Affairs found itself trying to reassure all claimants involved that this law did not signify a change in China’s policy regarding joint development (Valencia et al. 1999, 85). Some analysts have come to believe that the August 1990 offers made by Premier Li Peng, which stated China would put aside the question of sovereignty to pursue joint development of the Spratlys, were in fact premature (Valencia et al. 1999, 78, 85). It is believed that not only were relevant ministries not consulted; more importantly, no one had consulted the PLA which is considered the designated protector of state sovereignty and eventual unifier of Greater China--it is the PLA that is ultimately charged with ensuring Taiwan does not seek “independence” and that China’s territorial claims within the East and South China Seas

are protected (Edmonds 2000, 98; Valencia et al. 1999, 85-86). Situations such as this, where conflicting policy positions exist within the Chinese government, have produced the outward inconsistencies between what China says and does (Valencia et al. 1999, 86).

#### Analysis of Present Policy and Strategy

At present, China has typically been willing to shelve its territorial claims (though it has not abandoned them in principle) (Khalilzad et al. 1999, 17). While there have been several exceptions to this observation within the last decade, China has not, in general, pressed its territorial claims through the military instrument of power, even when it was in a relatively good position to do so (Khalilzad et al. 1999, 17). With respect to arguably its most important territorial claim, Taiwan, the Chinese “saber rattling” of 1995 and 1996 was not so much a challenge to the international status quo as much as a response to Taiwan’s move toward greater independence (Khalilzad et al. 1999, 17).

Michael Swaine and Ashley Tellis have coined a term for Beijing’s current policy called the “calculative” strategy; they believe it involves a two-pronged approach aimed at securing Chinese interests with respect to its territorial disputes in the South China Sea (Swaine and Tellis 2000, 131). The first prong dictates that whenever the dispute in question is intrinsically *trivial* to China’s larger interests, Beijing will seek to resolve it amicably in order to pursue its larger goals (Swaine and Tellis 2000, 131). An example of this might be the “quick” return of the detained American EP-3 in April 2001; it became readily apparent to Beijing within a couple days that the cost of holding onto its captured “prize” was not worth the potential loss of its impending admission to the WTO or its bid for the 2008 Olympic Games. The second prong dictates that when the dispute in question is *significant* but cannot be resolved rapidly to China’s advantage by peaceful

means, Beijing will advocate an indefinite postponement of the fundamental issue (Swaine and Tellis 2000, 131-132). In this context, one can see China has adopted this tactic in the case of its territorial disputes with the ASEAN states (Swaine and Tellis 2000, 132). The logic that underlies this approach has been to steadfastly avoid conceding any Chinese claims with respect to the Spratly dispute, while simultaneously seeking to prevent the dispute from spoiling the conditions necessary for completion of its rise to great power status (Swaine and Tellis 2000, 132).

As determined by Swaine and Tellis, this approach provides several advantages within the international community:

It positions China as a conciliatory state seeking to resolve all outstanding disputes peacefully. It does not increase the demands on China's military forces at a time when the PLA is relatively weak and when the Chinese economy needs all the breathing room it can get. It prevents balancing coalitions from arising against China in the event Beijing pursued more coercive strategies. And, it delays the resolution of these disputes at least until the balance of power changes substantially in favor of China. At that time, both simple usurpation and coercive bargaining *might* become more attractive, although it is unclear today whether the Chinese leadership would actually conclude that the benefits of such actions easily exceed the costs. (Swaine and Tellis 2000, 132)

Therefore, under the "calculative" strategy, Beijing has sought to avoid further loss of territory in the South China Sea at all costs (except when the loss has been deemed to be truly insignificant relative to the benefits of some of its other competing goals) (Swaine and Tellis 2000, 132). Whenever intrinsically valuable territory, such as the Spratlys, has been at issue, however, China has sought to preserve the status quo--not surrendering its sovereign claims, nor applying force to preserve its claims, so long as other claimants to the dispute do not attempt to change the status quo either (Swaine and Tellis 2000, 132).

### The Tactics of Negotiation

Chinese policy may also be seeking to exploit a tactical negotiating advantage before agreeing to any bilateral or multilateral resolutions in the region (Valencia et al. 1999, 86-87). Beijing has typically taken a hard-soft approach in past territorial disputes and appears to be using a similar strategy in the Spratlys (Valencia et al. 1999, 86-87). For example, Beijing is strengthening its foothold through a steady sequence of small encroachments, enhancing its capability to project force, and threatening to use it if necessary; China is simultaneously expressing its willingness to discuss the issues under protestations of peaceful intentions (Hull 1996; Valencia et al. 1999, 86-87). Beijing's "small-step-by-small-step or 'Salami' approach has mitigated the reaction from other claimants because each step is so small and the costs of calling China's 'hand' could be very large" (Valencia et al. 1999, 87).

Along those lines, Beijing's approach to other territorial disputes has shown that it is often willing to negotiate and even participate in joint developments when it does not have full control over the territory in question, such as the Spratlys or Diaoyutai (Senaku) Islands in the East China Sea (Valencia et al. 1999, 87). If, on the other hand, it is in firm control of an area (like the Paracels), it is unwilling to negotiate, let alone participate in any type of cooperative venture (Valencia et al. 1999, 87). On a positive note, China's behavior in past territorial disputes also indicates that it may simply be maneuvering for a stronger bargaining position; in addition, when other economic or security interests override its narrow concerns in the Spratlys, it has shown a willingness to compromise (Valencia et al. 1999, 87).

### Multilateral Negotiations

For China, multilateralism is a relatively new learning experience (Valencia et al. 1999, 83). Beijing has ostensibly favored bilateral negotiations because it feels it can dominate such proceedings; its thoughts are the same with respect to ventures in joint bilateral development (Valencia et al. 1999, 77). When it comes to a discussion of regional security issues, Beijing considers disputes, such as the Spratlys, a bilateral problem not relevant to multilateral solution; thus it opposes including the Spratly issue on any agenda of multilateral security discussions (Valencia et al. 1999, 83). Consequently, China has sought to stall the multilateral process wherever possible, while emphasizing bilateral solutions to most of the security problems in the region (Valencia et al. 1999, 83).

Another consideration in the disputes as to why the Chinese prefer bilateral agreements is the inherent Chinese fear that any multilateral agenda may be manipulated by the United States or others; they also fear that Taiwan may use any Spratly dialogue to advance its pursuit of international recognition (Valencia et al. 1999, 83). Additional concerns for Beijing may include the fear that multilateral discussions could derail its “calculative” strategy of postponing settlement of sovereignty issues and defusing tension through improved bilateral relationships with other claimants (Swaine and Tellis 2000, 131; Valencia et al. 1999, 77). As a member of the ASEAN Regional Forum (ARF) to be discussed below, China has continued its argument that the resolution of territorial disputes should be a bilateral issue (USDOE EIA 2001b). Other ARF members, such as the United States, however, have protested that all ARF members have an interest in issues affecting peace and stability in the region, and therefore the ARF forum is

extremely appropriate for discussing such issues (USDOE EIA 2001b). Whether Beijing believes it can continue to negotiate on a solely bilateral basis or not, the growing strength of ASEAN may have made multilateralism inevitable within the region. This is because early bilateral arrangements between ASEAN members have developed over time into an overlapping and interlocking network of agreements and relations that extend far beyond the region (Rosenberg 2002, 7).

### China and ASEAN

Because of the Mischief Reef incident, many believe ASEAN found its collective voice on the South China Sea issue (Valencia et al. 1999, 7). By summoning Chinese ambassadors to underscore their concern and subsequently presenting a united front at the first ASEAN-China consultative meeting, ASEAN signaled it would finally carry out an active security role within the region (Valencia et al. 1999, 7). Issues concerning the South China Sea have consequently been discussed at the ASEAN Regional Forum (ARF), held in conjunction with the ASEAN Post Ministerial Conference (USDOE EIA 2001b). The ARF brings together approximately twenty-two countries from across the international community (including China), to discuss security issues within the Asia Pacific region; ASEAN members are included in all discussions (USDOE EIA 2001b). While many outside observers are pleased with China's apparent acceptance of the new role ASEAN plays within the region, there is much speculation on why Beijing finally decided to embrace ASEAN.

Analysts believe one answer as to why Beijing is now participating in discussions with ASEAN is found in its approach to all international organizations where consequential policies adverse to its interests might be manufactured as a result of

China's absence (Swaine and Tellis 2000, 135-136). Authors Michael Swaine and Ashley Tellis have summarized the origins of this strategy as follows:

China's early disinterest in these bodies [ASEAN and ARF] was rooted in an effort to avoid being "cornered" by enmeshing multilateral arrangements where China's greater bargaining power--visible in the purely bilateral relationships it enjoys with its smaller neighbors--would be neutralized by participation in a large forum that brought together all its many potential competitors simultaneously. Once these fora acquired a life of their own, however, Beijing realized that its lack of participation could result in these institutions adopting policies that might not be in China's best interests. To forestall this possibility, China became a late entrant to these bodies. Its initial participation was the result of a constrained choice, but China has realized that these institutions may offer future benefits and consequently its desire to continue participating may be motivated as much by the hope of future gains as it is conditioned by the current desire to avoid immediate losses. (Swaine and Tellis 2000, 135-136)

While Beijing most likely chooses to participate in these multiregional fora as a way to lessen confrontation with a collective ASEAN on regional disputes as it pursues its objectives, its policy of avoiding formal diplomatic positions that would restrict its ability to maneuver have continued to cause conflict (Valencia et al. 1999, 77-78). Thus, although relations between most ASEAN members and China have improved markedly, many within ASEAN will remain frustrated by Beijing's deliberate ambiguity on issues concerning the South China Sea (Khalilzad et al. 2001, 168).

### Summary of Policy

China is undoubtedly a key player within the region; unfortunately, its policy remains unclear (Valencia et al. 1999, 1). China's difficulty in developing a credible strategy to deal with its maritime neighbors may be representative of deep divisions among policymakers within its government; thus it may be impossible for China to clarify its position at this time (Edmonds 2000, 95; Hull 1996, 4). What *is* clear is that throughout the last decade the gap between its words and deeds has widened (Valencia et

al. 1999, 1). Although declared Chinese policy does not specifically list the South China Sea, the Spratlys or their SLOCs as vital national interests, their actions and equivocal pronouncements might speak otherwise.

In summation, China's strategy on this issue appears to be a combination of ambiguity, incrementalism, divide and dominate, selective use of force, and tactical timing; but it is not clear whether these dimensions are integrated or coherent (Valencia et al. 1999, 87). The ambiguity may be either purposeful or happenstance. Although one can chronicle China's actions, those actions pose a more fundamental question: Is China seeking to write its own rules for international order rather than accept existing norms? (Valencia et al. 1999, 78). One dimension of this situation is clear: While many questions remain about China's ultimate objectives in the Spratly area, there can be little doubt that Beijing regards at least the selective use of modest military force as a legitimate option in its pursuit of its interests (Klare 2001, 126).

#### Research Question 2: Undersea Resources of the South China Sea

The primary regional and international focus regarding the South China Sea's undersea resources has always been about hydrocarbons in general and on oil in specific (USDOE EIA 2001b). Critical subordinate questions in the resource section include: Can the region supply oil in quantities of any significance? Could a strategic reserve be established if oil *was* found in quantity? If such reserves were located, could the oil even be obtained? And finally, can adequate infrastructure be constructed for production? In subsequent discussion, the overall objective will be to determine whether harvesting the potential undersea resources of the region supports the argument that access to the South China Sea is a vital interest to China's future energy security. If harvesting its resources

*is feasible, could China afford not to press its claims in order to mitigate its oil vulnerability?*

### Estimates

At present, the majority of China's offshore drilling operations is concentrated in its coastal areas, especially near the Gulf of Chichi (off northeastern China) and the mouth of the Pearl River (near Hong Kong) (Klare 2001, 116). With more frequency, however, the Chinese are looking toward promising fields in deeper waters (Klare 2001, 116). As discussed earlier, the deeper waters of the South China Sea have acquired greater significance in recent years because of the expectation that it may harbor considerable reserves of energy (Klare 2001, 119). Just how extensive these potential resources will prove to be is still a matter of some conjecture because so little exploration has taken place due to conflicting claims; in addition, experts lack adequate data to make reliable estimates of its untapped reserves (Downs 2000, 6; Klare 2001, 119).

Whether reported in the Chinese press or attributed to Chinese officials, resource estimates for the South China Sea tend to vary greatly (USDOE EIA 2001b). Preliminary estimates by China's Ministry of Geology and Mineral Resources in the 1980s concluded that the South China Sea could hold as much as 130 billion barrels of oil --an amount greater than the oil reserves of Europe and Latin America combined (Klare 2001, 119). In studies that followed, Chinese estimates placed the total for the South China Sea as high as 213 billion barrels (USDOE EIA 2001b). In 1994, the Chinese Ministry of Geology and Mineral Resources estimated resources at 225 billion barrels of oil, although it remains unclear whether this number represents reserves for only the Spratly Islands proper or the entire South China Sea (Valencia et al. 1999, 9). China's

predictions on the hydrocarbon potential of the South China Sea are not shared by most non-Chinese analysts (USDOE EIA 2001b). For instance, a 1993-1994 projection by the U.S. Geological Survey estimated that the sum total of discovered and undiscovered resources in the offshore basins of the South China Sea at only 28 billion barrels (or one-tenth of most Chinese estimates) (USDOE EIA 2001b).

To explain the difference between Chinese and Western estimates, the situation must be viewed in context of how business transactions are conducted between most governments and oil companies. To attract foreign investment, governments and speculators tend to play up the potential of unexplored regions by providing figures that are artificially high (Downs 2000, 6; Valencia et al. 1999, 9). On the other hand, oil companies will often downplay the potential of these same regions with artificially low estimates, hoping for more liberal and lucrative contract terms during the bargaining process (Downs 2000, 6; Valencia et al. 1999, 9). This posturing may explain the difference in views between Chinese estimates of vast hydrocarbon potential, and those projections made by some major oil companies which are less than optimistic (Valencia et al. 1999, 9). It does not, however, explain why a few nonregional scientific institutions, such as Lamont Doherty Geological Observatory and the German Geological Survey, are optimistic about the potential (Valencia et al. 1999, 9).

While speculation continues as to its total potential, the South China Sea region (excluding the Paracels and Spratlys) has *proven* oil reserves estimated at approximately 7.8 billion barrels (table 1) and current oil production within the region is well over 1.9 million barrels per day (for a comparison to other offshore oil and gas regions, see table 2) (USDOE EIA 2001b). Total South China Sea production continues to increase as

more and more oil wells from China, Malaysia and Vietnam have become operational (USDOE EIA 2001b).

Table 1. Oil and Gas in the South China Sea Region

	Proven Oil Reserves (Billion Barrels)	Proven Gas Reserves (Trillion Cubic Feet)	Oil Production (Barrels/Day)	Gas Production (Billion Cubic Feet)
Brunei	1.4	13.8	200,612	334
Cambodia	0	0	0	0
China*	1 (est.)	3.5 (est.)	273,000	141
Indonesia*	0.2 (est.)	30.5	215,000	12
Malaysia	3.9	81.7	668,922	1,437
Philippines	0.3	2.8	3,000	<1
Singapore	0	0	0	0
Taiwan	<0.01	2.7	1,300	33
Thailand	0.4	11.8	169,346	565
Vietnam	0.6	6.8	282,463	19
Total	Est. 7.8	Est. 153.6	1,921,734	2,542

Source: United States Energy Information Administration (USDOE EIA 2001b).

Note: Only the regions around the South China Sea are included. Note: There are no proved reserves for the Spratly and Paracel Islands. Proved oil and natural gas reserves are as of 1/1/2001 (except China and Indonesia South China Sea regions, where data is as of 1998/1999). Oil production is a 2000 average through the first 11 months (except China and Indonesia South China Sea regions, where data is as of 1998). Oil supply includes crude oil, natural gas plant liquids, and other liquids. Natural gas production is the 1999 average, except for Indonesia, where production from the West Natuna gas field, which began in 2000, is included.

The few oil wells that have been drilled within proximity of the Spratly chain have confirmed the existence of good source and reservoir rocks; by analogy with surrounding areas, the section beneath the Spratly area is expected to contain similar potential for oil deposits (CIA 2001b; Valencia et al. 1999, 9-10). Just as with other parts

of the South China Sea, Chinese reports estimate enormous commercial oil and gas reserves within the Spratlys (Valencia et al. 1999, 9). Unlike the fields currently developed within the South China Sea, however, there are no proven reserves for the Spratly Islands (or the Paracel Islands for that matter) (USDOE EIA 2001b). Regardless, optimistic Chinese estimates have encouraged interest in the area, with one report suggesting that the Spratly Islands could become the next Arabian Gulf (Rosenberg 1999; USDOE EIA 2001b). One of the more conservative Chinese projections suggests that potential oil reserves (again, not proven) of the Spratly and Paracel Islands could be as high as 105 billion barrels (USDOE EIA 2001b).

Table 2. Oil and Gas in the South China Sea - Comparison with other Regions

	<b>Proven Oil Reserves (Billion Barrels)</b>	<b>Proven Gas Reserves (Trillion Cubic Feet)</b>	<b>Oil Production (Million Barrels/Day)</b>	<b>Gas Production (Trillion Cubic Feet/Year)</b>
<b>Caspian Sea</b>	18.4-34.9	236-337	1.3	4.3
<b>North Sea Region</b>	16.1	148.2	6.7	9.0
<b>Arabian Gulf</b>	672.0	1,800.0	21.4	6.8
<b>South China Sea</b>	Est. 7.8	Est. 153.6	1.9	2.5

Source: United States Energy Information Administration (USDOE EIA 2001b).

Note: Proved reserves as of 1/1/2001 (except for Gulf of Mexico, where data is of 12/31/98). Oil production as of 2000. Oil supply includes crude oil, natural gas plant liquids, and other liquids. Natural gas production as of 1999 (except for the Caspian Sea Region, which is an estimate for 2000).

While 105 billion barrels in total reserve for both island chains would appear to be relatively substantial, the situation is seen in a much different light when only the

Spratlys are considered. According to a 1995 study by Russia's Research Institute of Geology of Foreign Countries, the Spratly area may only contain about six billion barrels of oil equivalent (of which 70 percent would be natural gas) (Rosenberg 1999; Valencia et al. 1999, 9). This figure is also thought to be an optimistic “guesstimate” of resources, with recoverable reserves considered to be far less (Valencia et al. 1999, 9). A common rule-of-thumb in exploratory areas, such as the Spratlys, is that maybe ten percent of the potential resources can be economically recovered (USDOE EIA 2001b). Applying this rule to moderate Chinese estimates, potential production levels for the Spratlys could top 1.4 to 1.9 million barrels per day; this would equal oil production for the entire South China Sea region for 1999 (USDOE EIA 2001b). The highest Chinese reserve estimates would produce roughly 2.8 to 3.8 million barrels per day (USDOE EIA 2001b). The most optimistic Western projections place the total oil resources within the Spratly Islands at 10 billion barrels (unproven) (USDOE EIA 2001b). Applying the same ten percent rule-of-thumb, the Spratly Islands might only yield a peak oil production level of 137,000 to 183,000 barrels per day; this would be on the same order of magnitude as present-day production levels in Brunei or Vietnam (USDOE EIA 2001b).

#### Conclusions on Oil Quantity

Can the region supply oil in quantities of any significance? Although confirmation of these and other estimates will require extensive survey work, the limited data available on the geology and geochemistry of the area would indicate that the commercial oil and gas potential of the Spratlys is modest at best (Klare 2001, 119; Valencia et al. 1999, 9). There is insignificant evidence, outside of Chinese claims, to support an argument that the region could contain extensive oil reserves (USDOE EIA

2001b). Given the lack of exploratory drilling, there are no proven oil reserve estimates for the Spratly or Paracel Islands; nor has any commercial oil been discovered within the region (USDOE EIA 2001b). In the final analysis, the Spratlys do not appear to be a high priority for major oil companies at this time and any future discovery would have to be extremely large to become commercial (CIA 2001b; Valencia et al. 1999, 9). It must also be acknowledged that whatever future hydrocarbon discoveries are made, the majority of its reserve will most likely be natural gas. The U.S. Geological Survey and other analysts indicate approximately sixty to seventy percent of the South China Sea's hydrocarbon resources are natural gas (USDOE EIA 2001b). While findings to date may appear meager, it must be recognized that countries adjoining the region are impressed enough with the potential of the South China Sea to make ambitious territorial claims (Klare 2001, 119). And as demonstrated by China, they are also prepared to defend their "possessions" against competing claimants (Klare 2001, 119).

#### The Potential for a Strategic Reserve

It's [a strategic oil reserve] like a nuclear bomb. Once you've made it, it acts as a kind of intimidation. (Farr 2001)

Chen Huai

Apprehension over its energy security has prompted Beijing to seriously consider the creation of a strategic petroleum reserve (SPR) (Downs 2000, 29; USDOE EIA 2001c). Chinese advocates for the construction of an SPR argue that it would improve China's energy security in several ways: first, construction of an SPR would reduce China's vulnerability to short-term oil-supply interruptions; second, an SPR could help stabilize domestic prices in the event of dramatic oil price increases on the international

market; third, an SPR could deter politically or economically motivated supply disruptions because China would still possess a credible capability to conduct sustained conflict; and fourth, an SPR might increase China's diplomatic room to maneuver because it could take actions that, lacking strategic reserves, it presumably would not pursue (Downs 2000, 29; Farr 2001).

At its annual session of parliament in March 2001, the Chinese government said it would work to establish a strategic reserve within the next five years (Farr 2001). Present plans are for a reserve comprised of only six million tons (44 million barrels); this would be equivalent to roughly one month of imports (Farr 2001). Beijing has recognized that effective oil reserve of 10 million to 15 million tons (approximately 73 million to 110 million barrels) usually takes from eight to ten years to establish; estimated costs would run about \$2.5 billion dollars (U.S.) for construction by 2010 (Farr 2001). Nevertheless, a strategic reserve this size would fall well short of the ninety days' import equivalent that the twenty-six countries of the International Energy Agency (IEA) currently hold or have pledged to hold in their reserves (Farr 2001). At present, it remains unclear whether China would build a government-held reserve of crude oil similar to the U.S. SPR or consider borrowing the Japanese strategic reserve model which is composed of both government and industry reserves (Farr 2001; USDOE EIA 2001c). Regardless of which strategy is ultimately decided upon, construction and operating costs are considered a major impediment to the realization of a Chinese SPR (Downs 2000, 29).

### The South China Sea Contribution to an SPR

Could a strategic reserve of oil be established from the resources of the South China Sea (and specifically, the Spratlys)? If one assumes that the 1992 *Law on Territorial Waters and Their Contiguous Areas* proclaiming Chinese sovereignty over almost the entire South China Sea has validity, then the 28 billion barrels conservatively estimated by the U.S. Geological Survey to be in the South China Sea is still a substantial quantity (USDOE EIA 2001b). For comparison in size, the total proven reserves for the U.S. roughly equal 22 billion barrels as of 31 December 2000 (USDOE EIA 2001e, 20). Utilizing the current South China Sea's oil production rate of 1.9 million barrels per day, China could easily meet the requirements of its present plan to build a 44-million-barrel reserve (one month's imports). Unfortunately, the assumption that China has sovereignty over the whole of the South China Sea is not a realistic one, based upon conclusions that will be delineated further within the sovereignty section.

Could the Spratly Islands alone significantly contribute to a strategic reserve if China's claim were validated? If the most conservative (Western) estimate on the Spratly Islands is utilized (10 billion barrels), a potential production rate of 1.4 to 1.9 million barrels per day is hypothesized (USDOE EIA 2001b). Though overall reserves would be 18 billion barrels less than the estimate for the South China Sea, the Spratly production rate is predicted to be roughly equivalent. Again, China could easily meet the requirements of its present plan within a couple months. Unfortunately, two factors work against realization of this option. First, the assumption that China has sovereignty over the whole of the Spratlys (or could effectively defend them against a likely enemy) is as unrealistic as its claim to the entirety of the South China Sea. Second, and maybe of

most importance, there are still no proven oil reserve estimates for the Spratly or Paracel Islands as discussed earlier (USDOE EIA 2001b).

In either case, it does not appear a credible strategic reserve could be established in the foreseeable future from the undersea resources of the South China Sea. While potential reserves could make a significant impact toward augmenting a future SPR, the sovereignty issues that exist within the region make its establishment a virtual nonissue. Although undersea resources may not be sufficient under current claims restrictions to build an SPR, these findings do not diminish the fact that countries adjoining the region are still impressed enough by the South China Sea “meager” resources to make ambitious territorial claims in the name of energy security (Klare 2001, 119).

#### Drilling Wells

The primary reason for the relatively limited number of oil wells within the South China Sea (specifically, the Spratlys) has to do with the conflicting claims made by claimants adjoining the region. While claimants sometimes dispute sovereignty by advocating civilian or military occupation, there also appears to be an informal agreement not to drill in most areas until contested claims can be formally adjudicated. There have been concerns that the waters of the South China Sea are too deep for commercial attractiveness, this stems from the striking variation of its sea floor characteristics which average 100 meters (328 feet) deep on the continental Sunda shelf in the southwest, to over 5,000 meters (16,404 feet) in the northeast near the Philippine basin (Rosenberg 2002; Valencia et al. 1999, 10). Despite this variation, over 4,000 square miles of seabed lie under less than 200 meters (656 feet) of water near Reed Bank alone (see figure 3 for

orientation); even more seabed lies less than 1,000 meters (3281 feet) from the surface in the Spratlys proper (Valencia et al. 1999, 10).

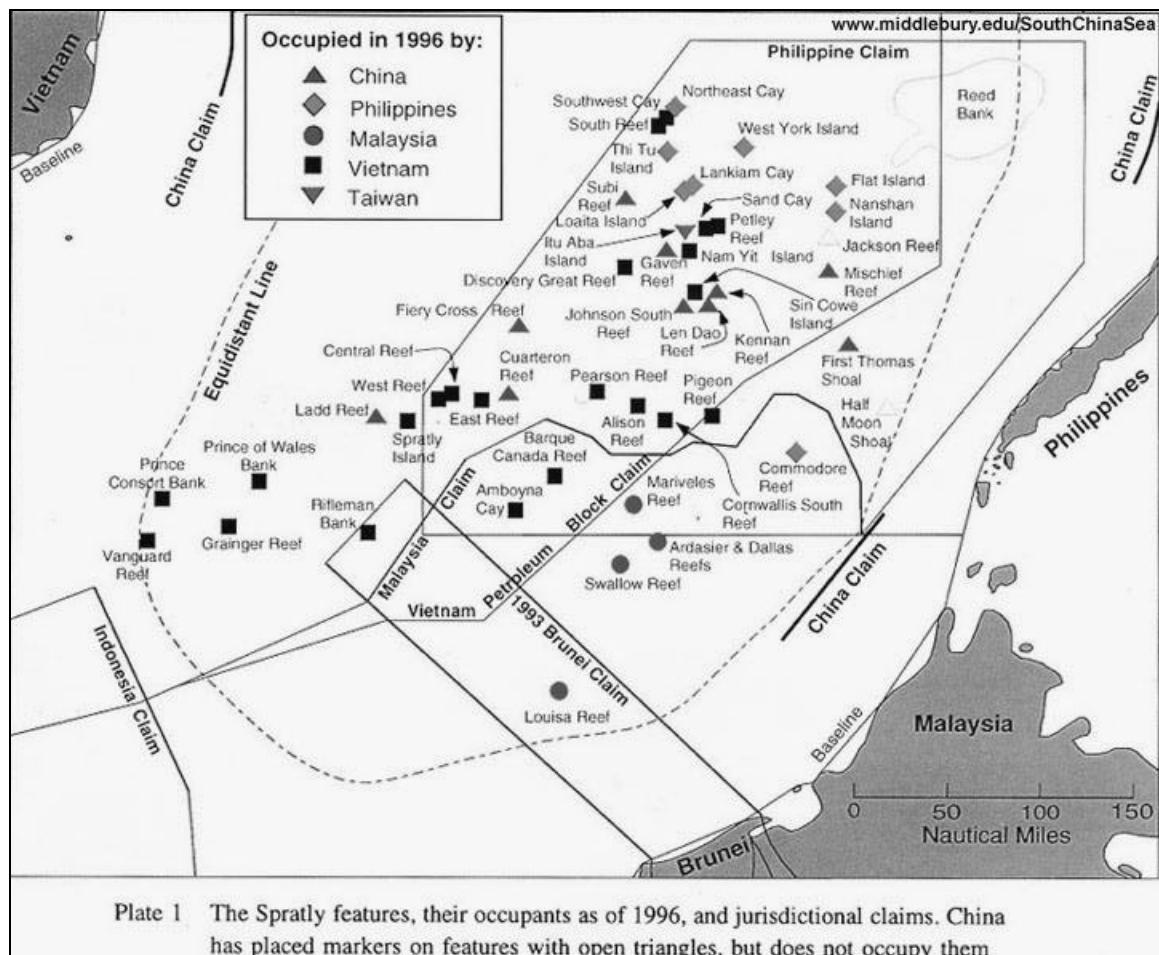


Figure 3. The Spratly Islands and Jurisdictional Claims. *Source:* Rosenburg 2002 and Valencia et al. 1999, 253.

Occidental drilled a subcommercial discovery off Northwest Palawan in December of 1994; the depth of approximately 1,280 meters (4,200 feet) was a record for Asia at that time (Valencia et al. 1999, 10). As of 1998, the world record for active deep water *production* is approximately 1,709 meters (5,607 feet) by Petrobras, beneath the waves of the South Atlantic Ocean, in the Marim field off the coast of Campos, Brazil

(Anderson 1998, 90-91). Current deep water production (with rates in excess off 40,000 barrels per day) now occurs routinely at depths exceeding 1,219 meters (4,000 feet) (Rigzone 2002). Shell has pioneered *exploratory* drilling in up to 2,292 meters (7,520 feet) of water within the Mississippi Canyon and expects to produce commercially from such depths in the near future (Valencia et al. 1999, 10). There is also discussion that some atolls could be exploited as drilling platforms (Valencia et al. 1999, 10).

If oil reserves were located, could the oil be obtained? Sovereignty issues aside, the physical capability exists to drill in the depths of the South China Sea; moreover, a substantial amount of this region would be accessible by such techniques (in terms of overall square mileage). Despite these optimistic assessments, for the time being, extensive drilling within the South China Sea is deemed to be too costly (Rosenberg 2002). This is primarily due to the expense involved with exploration in such places as the unproven Spratlys (Rosenberg 2002). In addition, the size of the reserves would have to be large enough to justify the expenses of deep water production (Valencia et al. 1999, 10). Unfortunately, the existence of substantial and easily exploitable yields within the region is arguable, as noted earlier (Rosenberg 2002).

### Infrastructure

Can adequate infrastructure be constructed for production and development? Again, technology is not a problem. The physical ability to construct oil wells, provide transport in the form of overseas shipping, and establish refineries exists at this time. The limiting factor is cost, which would be a substantial burden, even for the economic prowess of the “Asian Dragon.” However, this would assume that China seeks to develop these resources in conjunction with a joint development of some kind. China

could, in fact, forego the transportation and logistical costs noted above by simply purchasing oil (originating from other countries developing the South China Sea) on the international market (Downs 2000, xii). In other words, oil would not physically need to enter China “through its own hands;” it could essentially be *swapped* into Chinese markets from the international market without incurring any additional costs past normal purchase (Downs 2000, xii).

#### Summary of Undersea Resources

The resource section covered several critical subordinate questions. To synopsize, it appears that reports of major hydrocarbon potential within the South China Sea are derived from insufficient information (Valencia et al. 1999, 9). Evidence to date does not support the Chinese argument that the region holds significant oil reserves. The findings are further augmented by observation that the Spratlys do not appear to be a high priority for any major oil company at this time; private sector exploration remains modest despite agreements on joint exploration and development (Valencia et al. 1999, 9). Because of conflicting sovereignty claims within the region, recovery of resources has been minimal, despite the fact that technology exists to develop its deeper waters. In addition, what few hydrocarbon resources that may be recovered by a particular country would most likely not be substantial enough to create or augment an SPR (even a minimal SPR). Finally, it was noted that China could forego construction of extensive infrastructure production and development by purchasing its oil from the international market. It must be recognized, however, that while energy originating from the South China Sea would be available for sale to the Chinese during times of peace, time of war would represent another matter altogether (especially without an existing SPR).

In summation, the overall objective of the resource section was to determine whether harvesting the potential undersea resources of the region would support the argument that access to the South China Sea is a vital interest to its future energy security. Because the hydrocarbon potential of the region is undetermined, exploration minimal, and recovery even less, it is inconceivable that the South China Sea is vital to anyone's interest at this time. However, the claimants in these disputes are countries, not oil companies; and countries typically think symbolically, long term, multidimensionally, and mythologically, particularly when territory and history are involved (Valencia et al. 1999, 10-11). For the past several decades, hopes and beliefs have been strong that energy resources (or perhaps resources other than petroleum) could eventually be discovered and exploited that the various countries felt it necessary to stake claims throughout the region (Valencia et al. 1999, 10). Thus, it is not unlikely that the claimants will maintain their interest in this region, even if reason indicates that the oil potential may be modest (Valencia et al. 1999, 10).

### Research Question 3: Sovereignty within the South China Sea

The legal questions raised by competing claims on the land features and maritime zones of the South China Sea are overwhelming in their complexity (Valencia et al. 1999, 17). Through application of the principles that govern international law, this section will be dedicated to sorting out the strengths and weaknesses of Chinese ownership claims. Particular attention will be given to the Spratly Islands, as this chain provides the best case study for understanding sovereignty issues within the region overall. While sovereignty disputes are complex enough in and of themselves, it must be remembered that what primarily drives these particular disagreements is the sovereign owner's

potential entitlement to the adjacent ocean and its undersea resources (Valencia et al. 1999, 17). In subsequent discussion, the overall objective will be to determine whether China could successfully press its legal claims to gain “lost” territory on its periphery. If the Chinese can sufficiently prove sovereignty through legal means, then the necessity to go to war over such territory might be reduced.

#### General Claims by Countries Adjoining the South China Sea

For orientation on overall claims (specifically, the Spratlys), the following synopsis is provided by Michael J. Valencia (refer to either appendix A, table A1, or figure 3 for additional reference):

China, Taiwan, and Vietnam each claim all the islands, reefs and rocks in the main Spratly archipelago that stand or emerge above sea level, each government arguing that these features have long been part of their territory. The Philippines also claims the islets within a slightly more limited area it calls Kalayaan (“Freedomland”). China, Taiwan, and the Philippines claim submerged features in the Spratly region as well. Malaysia claims seven features outright in the southern Spratlys because they fall within its continental shelf boundary. Brunei’s Exclusive Economic Zone (EEZ) claim takes the form of a corridor extending to the south of the Spratlys proper, 200 nautical miles (NM) from its coast, which includes Rifleman Bank as well as a small corner of the Philippines-claimed Kalayaan. China, Taiwan, and Vietnam each have incorporated the whole Spratly archipelago into their provincial administrative systems, and the Philippines has done the same for Kalayaan. (Valencia et al. 1999, 8)

#### The Chinese Claim

China claims both the Paracel and Spratly Islands within the South China Sea. Its assertions are based upon historical usage, citing that Chinese ship captains have sailed across the South China Sea for over 2,000 years, specifically using its waters as a regular navigational route during the Han dynasty from A. D. 206 to 220 (Valencia et al. 1999, 20). In the time between the twelfth and seventeenth centuries, there were occasional references to the islands noted in Chinese records, including maps displaying

elevations (Valencia et al. 1999, 20). It was during this period, that the “Middle Kingdom” became “the centre of a universal state” which “oversaw a hierarchy of tributary states” (Valencia et al. 1999, 20). It is this past self-image of Chinese social organization that has often presented problems for modern assessments of its sovereignty claims (Khalilzad 1997, 20-24; Valencia et al. 1999, 20). As observed below:

Chinese legal and political thought, reflecting the influence of the Confucian ethic, conceives of the area over which a State, or “kuo,” had sovereignty, not as a function of legal limits, but as one of social organization, history and the loyalty of subjects. The Emperor ruled men and not space; the area of rule was defined as points of human residence and use. Thus, the delineation of the scope of territorial sovereignty was expressed in terms of zones of influence *rather than by definite linear boundary* [italics mine]. (Valencia et al. 1999, 20)

In this context, China saw no reason for formal declaration of sovereignty with respect to the islands of the South China Sea (Valencia et al. 1999, 20).

China’s presence within the Spratlys is recorded more consistently from the nineteenth century onward (Valencia et al. 1999, 21). In 1876, China’s first formal sovereignty claim was made when the Chinese ambassador to Britain proclaimed the Paracel Islands as Chinese territory (Valencia et al. 1999, 21). The Chinese subsequently expelled a German survey team from the Spratlys in 1883 (Valencia et al. 1999, 21). From 1917 through 1954, China’s possession of both the Paracels and Spratlys became contestable. In 1917, a Japanese company began the exploitation of guano deposits on the Spratlys; in the early 1930s, France made formal claims to seven of the greater Spratly Islands, and to a certain extent exercised actual control over the Spratlys (Valencia et al. 1999, 21). By the late 1930s, expansionist Japan had established a strong presence within the Spratlys, by constructing a submarine base on the Island Ita Aba to intercept shipping through the chain (refer to figure 3 for Ita Aba’s location) (Valencia et

al. 1999, 21). Japan departed the area in accordance with Article 2 of the Treaty of Peace signed in 1951, having renounced all “right, title and claim to . . . the Spratly Islands” (Valencia et al. 1999, 21). China often refers to this article as evidence of the legitimacy concerning its historic claim to the Spratlys, even though the treaty does not allocate the islands to a specific country (Valencia et al. 1999, 21). Today, the benchmark for China’s claims to the Spratly Islands is often cited as its 1992 *Law on Territorial Waters and Their Contiguous Areas*.

#### Expansion by Occupation

Chinese activities within the Spratly Islands have included: the awarding of exploration and development concessions to oil companies in contested waters; the establishment of military outposts on unoccupied islands; conducting periodic naval maneuvers; and making the occasional show of force (Klare 2001, 121). An example of the first instance, the granting of hydrocarbon possessions in contested areas, is a somewhat customary but provocative method for governments to exercise jurisdictional control over territory (Valencia et al. 1999, 10-11).

Following the passage of its *Law on Territorial Waters and Their Contiguous Areas*, China began to award energy concessions to the Crestone Energy Corporation in the areas just off Vietnam (as alluded to in the policy section) (Klare 2000, 116). In this instance, a block referred to by the Chinese as Wan’ Bei-21 was concurrently claimed by the Vietnamese in their blocks 133, 134, and 135 (USDOE EIA 2001b). The inability of the claimants to resolve these disputes has had two consequences. First, both Conoco and PetroVietnam have refused to conduct active work for Vietnam, pending the resolution of contested claims (appendix A, table A3) (USDOE EIA 2001b). Second, although

Conoco and PetroVietnam have refused to conduct operations in the region, Crestone continues to pursue active work within the contested blocks. It is thought by experts that any potentially unopposed operations in the area by Crestone, particularly drilling, might demonstrate effective control over the region, which is one of the criteria for establishing ownership (Valencia et al. 1999, 11). At present, China continues to encourage foreign exploration and development in this manner throughout the South China Sea, with the stipulation that the Chinese partner holds controlling interest in the venture (USDOE EIA 2001c). Current Chinese investment partners include: Eni, British Petroleum, Exxon-Mobil, Phillips Petroleum, Shell, Texaco, and Mitsubishi (USDOE EIA 2001c). A complete listing of the major oil concessions, both in and around the Spratlys, is provided in appendix A, table A4.

Will China continue its trend toward selling concessions for oil exploration in contested territory throughout the region? It would seem that this practice could provide a twofold benefit. Not only does it provide the possibility for establishing future ownership of contested islands and their undersea resources, it may have the added benefit of tying the hands of its potential rivals. Few oil companies are likely to risk the cost of exploration and development in disputed territories when they stand to lose their concession after adjudication by formal authority. In addition, the Chinese selling of concessions in contested territory may have the unintended consequence of further augmenting the need to for the PLA to protect “gained” territories as their own.

Other examples of expansion by occupation include the establishment of military outposts on unoccupied islands. A minimum of five countries (China, Malaysia, the

Philippines, Taiwan, and Vietnam) have established military bases or naval stations in the Spratlys (Klare 2001, 112). The Chinese have been particularly adept at camouflaging their military operations under seemingly innocuous garb, such as the construction of “fishermen’s shelters” on Philippines-claimed Mischief Reef in 1995; it is in this manner that the Chinese could continue their island-hopping tactics and steadily increase their presence within disputed areas (Khalilzad et al. 2001, 196). Another example of its stepped-up presence includes structures built upon Fiery Cross Reef. This particular reef has been converted into an artificial island and now includes a supply base, a helipad, a 300-meter pier capable of handling 4,000-ton ships, and a modern oceanographic observation station (Valencia et al. 1999, 22). Although reports place troops on at least nine separate reefs, China asserts that it has no soldiers stationed in the Spratlys, only civilian personnel operating weather and communication stations (Valencia et al. 1999, 22).

Additional examples of expansion by occupation include the periodic naval maneuvers and shows of force by the PLA. The 1992 *Law on the Territorial Waters and Their Contiguous Areas* basically empowered the PLA to employ force where necessary to defend Chinese interests against foreign attack or occupation (Klare 2001, 121). Under this context, China has regularly stationed warships in the region and used its naval supply vessels to increase its military presence on the islands seized from Vietnam back in 1988 (Klare 2001, 123). On more than one occasion, Chinese warships have threatened vessels belonging to Vietnam when they crossed into Chinese-claimed drilling areas (Klare 2001, 123). For example, Chinese naval vessels prevented Vietnamese resupply of a small drilling rig they had moved into the Wan’ Bei block in 1994; the rig

was presumably established to test Chinese resolve (Klare 2001, 123). Whether by stepped-up military maneuvers, the establishment of military outposts on unoccupied islands, or the awarding of exploration and development concessions to oil companies in contested waters, it appears the Chinese trend toward expansion by occupation will continue into the near future because “presence” may indicate occupation in consequent adjudication (Klare 2001, 121).

### Expansion by Claim

China could successfully press its legal claims to gain “lost” territory on its periphery? This section will examine the validity of its territorial claims to the South China Sea; this will include a cursory look at both the laws it has passed concerning the region as well as the legality of some of its expansions by occupation. Before examining the weakness of the Chinese claim, a look at precedents on past territorial disputes is necessary for better understanding.

### The Precedents

Guidance on the rules that govern the ability of a country to claim ownership of uninhabited islands is provided by several prominent adjudications, these include: the *Clipperton* and *Isle of Palmas* arbitrations and the decisions by the International Court of Justice (ICJ) in the *Minquiers and Ecrehos* and *Gulf of Fonseca* cases (Valencia et al. 1999, 17). A synopsis of these precedents is contained in appendices B and C; the remainder of the follow-on paragraph summarizes their findings with respect to the Spratlys.

From past adjudications, it has been determined that discovery alone does not give sufficient title to contested territories; some degree of “effective occupation” is

necessary (Valencia et al. 1999, 19). Although requirements for discovery of remote islands with no indigenous inhabitants (read Spratlys) has been less strict than for populated territories, in cases of ambiguity a tribunal will look closely at evidence of occupation, the exercise of authority, and the recognition or acquiescence of other nations to a particular country's claims (Valencia et al. 1999, 19). Although nonuse of a contested territory does not necessarily imply abandonment, especially if it is involuntary, such as in time of war, tribunals will require effective exercise of authority in cases where evidence of discovery is disputed or ambiguous (Valencia et al. 1999, 19). In other words, historical usage does not necessarily imply ownership in these disputes.

#### Weakness of the Chinese Claim

Chinese representatives claim that China has met the requirements found in the *Isle of Palmas* arbitration by effectively exercising sovereignty over the Spratlys without challenge for centuries (until the early 1930s incursion by the French) (Valencia et al. 1999, 22). Nevertheless, the majority of non-Chinese analysts has concluded that China's assertion that the Spratlys have "always been part of Chinese territory" is fundamentally weak under international law (Valencia et al. 1999, 22).

#### The Validity of Historic Claims under International Law

To begin with, China's exercise of authority over the Spratly Islands has been sporadic through the end of World War II (Valencia et al. 1999, 22). The evidence can be summarized as follows:

Ancient records are sparse, incomplete, and do not provide compelling evidence of routine occupation, effective administration, or assertion of sovereign control. The claim that the islands were exclusively Chinese is further weakened by an official Chinese government report published in 1928 that shows the

southernmost delineation of Chinese territory as the Xisha Islands (Paracels) and makes no mention of the Nansha (Spratly) Islands. (Valencia et al. 1999, 22-23)

China did not exhibit regular patterns of behavior or a repetition of similar activities in the region until the 1970s and 1980s, when it began asserting itself against Vietnam and the Philippines on a regular basis (Valencia et al. 1999, 23). As noted above, a Japanese company exploited guano deposits within the Spratlys during 1917, apparently without protest from the Chinese (Valencia et al. 1999, 23). Later incursions by the French and Japanese occurred. This undisputed break in continuity of China's historical "succession" certainly weakens its claim (Valencia et al. 1999, 23).

With respect to the question of whether some degree of "effective occupation" has been established, its claims are also weak. Through all the centuries, no activity on China's behalf could be characterized as "effective occupation" until 1988, when China built an observatory on Fiery Cross Reef (Valencia et al. 1999, 23). This was the same reef that the Chinese had taken by force from Vietnam in the military clash that occurred between them earlier that year.

Recognition or acquiescence of other nations to China's claims has also proven weak. Claimants have typically not acquiesced to China's declarations of sovereignty (Valencia et al. 1999, 24). During the previous two centuries, France, Britain, and Japan have each made claims to the Spratlys; at present, Vietnam, the Philippines, Malaysia, Taiwan, and Brunei, have claims to some or all of the Spratlys (Valencia et al. 1999, 24). For all the reasons listed above, China's historical claim to the Spratly Islands is at best weak under governing international law (Valencia et al. 1999, 24).

### Validity of Claims under UNCLOS

The following sections will examine China's claims under the *U.N. Convention on the Law of the Sea (UNCLOS)*. At present, all major claimants in the Spratly disputes have signed the *Convention*, including China (in 1996). It must be noted that Taiwan is not eligible to sign under the existing rules of *UNCLOS*. (Moreover, Taiwan until recently considered itself the legitimate ruler of all of China, and its South China Sea claims are largely based on that concept).

Most territorial disputes within the region center upon the use of exclusive economic zones (EEZs). These maritime zones and their restrictions are defined in Articles 55 to 75 of *UNCLOS*. Specific articles of interest to these disputes include Article 56, which declares that the EEZ of a coastal state shall provide that state with:

[S]overeign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and of the seabed and its subsoil, and with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents and winds. (*UNCLOS* 1982)

Under Article 57, “[t]he exclusive economic zone shall not extend beyond 200 nautical miles from the baselines from which the breadth of the territorial sea is measured” (*UNCLOS* 1982). Article 60(8) also has relevance to the disputes. It pertains to the legal status of artificial islands, such as China's Fiery Cross Reef, and states:

Artificial islands, installations and structures do not possess the status of islands. They have no territorial sea of their own, and their presence does not affect the delimitation of the territorial sea, the exclusive economic zone or the continental shelf. (*UNCLOS* 1982)

Article 60(8) was included to discourage claimants from building upon submerged reefs and low-tide features in order to generate EEZs where none had existed previously

(Valencia et al.1999, 45-46). Unfortunately, different nations tend to interpret this law in different ways--and typically not in the spirit of the *Convention*. The final article of importance concerning these disputes is Article 121(3). This article has provided perhaps the greatest controversy in claims over the Spratlys. It reads as follows: "Rocks which cannot sustain human habitation or economic life of their own shall have no exclusive economic zone or continental shelf" (*UNCLOS* 1982). The word "rock" is not defined in the *Convention*, and has therefore also been subject to many interpretations (Valencia et al.1999, 42-43). One paper by a U.S. law firm in the employment of Vietnam argued that a consensus exists in which a rock should be defined as any small island; however, under the *Convention*, the Spratlys would not qualify because they have never supported sustained human habitation (Valencia et al.1999, 42-43). This article, like Article 60(8), was purposely added to the *Convention* in order to prevent the artificial generation of EEZs (Valencia et al.1999, 44). Based upon loose interpretation of Article 121(3), however, China sometimes acts as if it assumes the Spratlys could generate EEZs (Valencia et al.1999, 44).

How does *UNCLOS* pertain specifically to China's claims on the Spratly Islands? In the 1992 *Law on the Territorial Waters and Their Contiguous Areas*, China clearly claimed twelve nautical mile territorial seas around the Spratly islets (in accordance with Article 3 of *UNCLOS*), but it has never made any specific claims for an EEZ or continental shelf (continental shelves are referenced in Article 76 of *UNCLOS*) around these features (Valencia et al. 1999, 24). In fact, China has yet to articulate an EEZ claim for its coasts, despite being a signatory to the *Convention* (Valencia et al. 1999, 24).

Does China claim the waters and undersea resources of the South China Sea? To this point, the 1992 *Law on the Territorial Waters and Their Contiguous Areas* has been primarily referenced for China's sovereignty claim to the Spratly islands, but China has another type of claim--to the waters and resources of the South China Sea (Valencia et al. 1999, 24). In 1947, the Chinese "published an official map of the archipelagoes of the South China Sea, using 11 interrupted lines to indicate the boundary of the islands, islets, reefs, banks and adjacent waters over which China exercised sovereignty" (Valencia et al. 1999, 24). Two of these lines were later eliminated, thus this illustration has come to be known as the "nine interrupted lines" (appendix D; figure D1) (Valencia et al. 1999, 24). The nine-interrupted-lines are sometimes referenced by Chinese representatives in multilateral talks on sovereignty. The 1992 Crestone concession is often referenced as a reflection of China's view that it has sovereign authority over the waters and resources within its nine-interrupted-lines historic claim (Valencia et al. 1999, 27). While it appears that Chinese statements--and more importantly, Chinese actions--indicate that it actually claims all the waters and resources within these lines, this argument does not hold up under traditional application of maritime zones as delineated by *UNCLOS* (Valencia et al. 1999, 25).

Finally, mention must be made of the concept of contiguity. Its basic premise is that geographic proximity should be taken into account in disputes. In other words, contiguity recognizes the vital importance of adjacent historic waters to coastal nations. The acceptance in *UNCLOS* of the concept of "archipelagic waters" is considered to be a modern adaptation of the historic-waters notion (Valencia et al. 1999, 26). Regarding China's claim, however, the arguments for ownership due to contiguity also appear to be

weak (Valencia et al. 1999, 26). For example, Half Moon Shoal, which was occupied by China during the Mischief Reef incident in 1995, is only fifty nautical miles from the Philippine coast, while the coast of China lies greater than 1,000 nautical miles from the shoal. China's occupation is therefore not in the spirit of "contiguity" as set forth by the *Convention*.

### Summary of Sovereignty

This section is dedicated to sorting out the strengths and weaknesses of Chinese ownership claims through the application of principles that govern customary international law. The preceding analysis indicates that the ambiguity of China's claim is a major weakness. Although China has never officially articulated the nature or legal basis for its claim, its 1996 ratification of the 1982 *UNCLOS* should provide some clarity to the situation because China has recognized the *Convention* as applicable to the Spratly dispute (Valencia et al. 1999, 27-28). In view of past international adjudications by the ICJ and arbitral tribunals, as well as its adoption of the 1982 *UNCLOS*, a formal claim by China to the South China Sea could not be sustained under any contemporary international law (Valencia et al. 1999, 28, 60). Based upon these findings, it is doubtful that China could successfully press its legal claims to gain "lost" territory on its periphery.

As discussed earlier, if the Chinese could assert sovereignty through legal or recognized diplomatic means, then the necessity to go to war over such territory might be negated. However, because the Chinese most likely cannot successfully assert sovereignty through legal and diplomatic means, several assumptions can be made. First, as long as the Chinese claim to the South China Sea is not formalized through

international adjudication, there is enough ambiguity in the present situation to allow the Chinese room for maneuver. Since legal and diplomatic recourse could take years, the Chinese can quietly continue to pursue their interests within the region, as long as any action it takes on behalf of those interests ultimately remains minor upon the regional and international stage. By simply building up and maintaining a presence in the area, China may actually create a legal situation in which it can make new and possibly stronger claims under the international equivalent of “squatter’s rights” to the territory in question. Second, if its claims are overtly rejected, then the Chinese will face a choice. Either they will accept the rule of international law or arbitration and pursue their economic interests through peaceful contractual relations, or they may choose to militarily occupy (or fight for) territory they deem vital to their energy security (believing no other options are available). Similarly, if the adjudication of claims is too long delayed, and China deems the delay to be engineered by outside forces and inimical to its interests in developing the area, China could decide to take military action to secure the area.

## CHAPTER 4

### CONCLUSIONS AND RECOMMENDATIONS

#### Conclusions

The overall objective of this thesis was to answer the primary research question: Is access to the South China Sea vital to China's future energy security? While chapter 1 effectively demonstrated that access to energy generally remains vital to future Chinese interests, chapter 3 analysis concluded that the South China Sea is not necessarily vital to China's future energy security.

A combination of related factors supports this finding. First, Chinese policy does not explicitly recognize the South China Sea, the Spratlys or the SLOCs that set astride these waters as vital interests. Second, while there is little doubt that Beijing regards the use of military force as a viable option in the pursuit of its interests within the region, aggressive Chinese actions to date typically have been both selective and tempered with restraint. Indeed, it is doubtful that the Chinese desire escalation of any conflicts outside the region, let alone committing its "sons and daughters" to major military action in support of arguable vital interests. Third, the hydrocarbon potential of the Spratlys is unproven; it would be unrealistic for Beijing to squander its military assets or political capital to seize territory lacking vital undersea resources. Fourth, if easily exploitable energy resources of substantial yield were eventually discovered within the Spratlys (or anywhere in the South China Sea), China could possibly participate in an exploitation agreement as one among a number of claimants to the area, or it could simply purchase this oil on the peacetime international market. Fifth, while it is doubtful that China could

successfully press its legal claims to gain “lost” territory on its periphery, it need not resort to military action.

There is one other factor that prevents Chinese access to the South China Sea from becoming a vital interest--power. At present, China is incapable of changing the rules within the international system to its advantage, nor can it yet alter the structure of relations with its neighbors through force or the threat of force (Swaine and Tellis 2000, 129). Although the Middle Kingdom might like to reinstate some of its customary patterns of control and the deference it has enjoyed in the past, it is not possible without a further increase in relative Chinese power (Swaine and Tellis 2000, 129). While China’s ability to employ force is constrained by the United States, Japan, and ASEAN, it has also benefited from this circumstance in two ways. First, the relative peace that exists throughout the region (as enforced by the U.S.) allows Beijing sufficient breathing space from external threats to achieve the goal of increasing its national power without interruption (Swaine and Tellis 2000, 113). Jiang Zemin has candidly admitted that Beijing cannot afford to be aggressive because China needs a long-lasting peaceful international environment for its positive development (Swaine and Tellis 2000, 113). Second, by enforcing freedom of navigation throughout the South China Sea, the U.S. guarantees regional access to ships of all countries, including China. Therefore, while China’s employment of force in the region might be constrained by other actors, the need for use of force to gain access to the South China Sea is also in large part unnecessary given the current geopolitical context.

Under the conditions listed above, the South China Sea is not considered vital to China’s energy security, but what circumstances could change this deduction? Two

concurrent conditions would need to be realized for access to become a potential vital Chinese interest. First, the existence of substantial exploitable reserves in the South China Sea (specifically, the Spratlys) would need to be proven; however, as demonstrated above, this factor alone would not make access vital to the Chinese. The primary factor that would necessitate access becoming a vital interest is the replacement of peacetime conditions with that of catastrophic international crisis. If a crisis such as world war was responsible for completely cutting off oil supplies to the worldwide market, the necessity for oil might be enough for China to deem military conquest of territories in the South China Sea as vital to their energy security, especially if it believes no other options are available. However, without these two conditions, access to the South China Sea will not be considered vital to China's energy security for some time to come.

#### Recommendations for Additional Research

Research for this thesis has been dedicated to determining whether access to the South China Sea is, or is not, considered of vital interest to the Chinese. Now that the primary research question has been answered, it is recommended that the following questions be given consideration for future study. The common thread that binds these questions is the determination of a definitive *course of action* to protect an interest deemed vital. Whether the course of action chosen is from an American or a Chinese perspective, an assessment would be invaluable toward determining how a nation will *act* through the diplomatic, military or economic instruments of power on behalf of its vital interests. Questions for additional research are as follows:

1. Is a comprehensive engagement strategy concerning China preferred over the use of purely military considerations in order to implement overall U.S. foreign policy?

2. Are there potential Chinese allies in the region that could substantially augment the Chinese, through stated or un-stated alliance, in pursuing their energy security via military or diplomatic means?
3. Could U.S. treaty considerations potentially bring the U.S. and China into conflict within the region?
4. Would the cost to China be greater in defending territory (or resources) obtained and developed under contested historical claim, or in seizing territory and resources only after the advent of some future war when China had a clear need for such resources?

#### Final Thoughts

This thesis addressed Chinese interests within the South China Sea over the next twenty years. Although access to the region was not deemed vital, this does not alleviate the need for continued critical thought concerning Chinese policy and actions. As the Asia-Pacific region stands poised to dominate the twenty-first century in terms of economic development; it is in all likelihood that the dominant actor within the region will continue to be China. Based upon this potential outcome, the conclusions and recommendations in this thesis will hopefully serve to spark discussion on the best course of action in preparation of such a consequence.

## APPENDIX A

### TABLES

Table A1. Territorial claims in the Spratly and Paracel Islands

<b>Country</b>	<b>Claim</b>
<b>Brunei</b>	Does not occupy any of the islands, but claims part of the South China Seas nearest to it as part of its continental shelf and Exclusive Economic Zone (EEZ). The boundary lines are drawn perpendicularly from 2 outermost points on the Brunei coastline. In 1984, Brunei declared an EEZ that includes Louisa Reef.
<b>China</b>	<p>Refers to the Spratly Islands as the Nansha islands, and claims all of the islands and most of the South China Sea for historical reasons. These claims are not marked by coordinates or otherwise clearly defined. China also claims the Paracel Islands (referred to as the Xisha Islands), and includes them as part of its Hainan Island province.</p> <p>Chinese claims are based on a number of historical events, including the naval expeditions to the Spratly Islands by the Han Dynasty in 110 AD and the Ming Dynasty from 1403-1433 AD. Chinese fishermen and merchants have worked the region over time, and China is using archaeological evidence to bolster its claims of sovereignty.</p> <p>In the nineteenth and early twentieth century, China asserted claims to the Spratly and Paracel islands. During World War II, the islands were claimed by the Japanese. In 1947, China produced a map with 9 undefined dotted lines, and claimed all of the islands within those lines. A 1992 Chinese law restated its claims in the region.</p> <p>China has occupied 8 of those islands to enforce its claims. In 1974, China seized the Paracel Islands from Vietnam.</p>
<b>Indonesia</b>	Not a claimant to any of the Spratly Islands. However, Chinese and Taiwanese claims in the South China Sea may extend into Indonesia's EEZ and continental shelf, including Indonesia's Natuna gas field.
<b>Malaysia</b>	Its Spratly claims are based upon the continental shelf principle, and have clearly defined coordinates. Malaysia has occupied 3 islands that it considers to be within its continental shelf. Malaysia has tried to build up one atoll by bringing soil from the mainland and has built a hotel.
<b>Philippines</b>	Its Spratly claims have clearly defined coordinates, based both upon the proximity principle as well as on the explorations of a Philippine explorer in 1956. In 1971, the Philippines officially claimed 8 islands that it refers to as the Kalayaan, partly on the basis of this exploration, arguing that the islands: 1) were not part of the Spratly Islands; and 2) had not belonged to anyone and were open to being claimed. In 1972, they were designated as part of Palawan Province, and have been occupied.

Table A1--*Continued.*

<b>Country</b>	<b>Claim</b>
<b>Taiwan</b>	Taiwan's claims are similar to those of China, and are based upon the same principles. As with China, Taiwan's claims are also not clearly defined. Occupies Pratas Island in the Spratlys.
<b>Vietnam</b>	Vietnamese claims are based on history and the continental shelf principle. Vietnam claims the entire Spratly Islands (Truong Sa in Vietnamese) as an offshore district of the province of Khanh Hoa. Vietnamese claims also cover an extensive area of the South China Sea, although they are not clearly defined. In addition, Vietnam claims the Paracel Islands (the Hoang Sa in Vietnamese), although they were seized by the Chinese in 1974. The Vietnamese have followed the Chinese example of using archaeological evidence to bolster sovereignty claims. In the 1930's, France claimed the Spratly and Paracel Islands on behalf of its then-colony Vietnam. Vietnam has since occupied 20 of the Spratly Islands to enforce its claims.

*Source:* United States Energy Information Administration (USDOE EIA 2001b).

Note: The South China Sea is defined by the International Hydrographic Bureau as the body of water stretching in a Southwest to Northeast direction, whose southern border is 3 degrees South latitude between South Sumatra and Kalimantan (Karimata Straits), and whose northern border is the Strait of Taiwan from the northern tip of Taiwan to the Fukien coast of China.

Table A2. Military Clashes in the South China Sea over the Past Two Decades

Date	Countries	Military Action
1974	China, Vietnam	Chinese seized the Paracel Islands from Vietnam, with 18 of its troops killed in clashes on one of the islands.
1988	China, Vietnam	Chinese and Vietnamese navies clashed at Johnson Reef in the Spratly Islands. Several Vietnamese boats were sunk and over 70 sailors killed.
1992	China, Vietnam	Vietnam accused China of landing troops on Da Luc Reef. China seized almost 20 Vietnamese cargo ships transporting goods from Hong Kong from June - September.
1994	China, Vietnam	China and Vietnam had naval confrontations within Vietnam's internationally recognized territorial waters over Vietnam's Tu Chinh oil exploration blocks 133, 134, and 135. Chinese claim the area as part of their Wan' Bei-21 (WAB-21) block.
1995	China, Philippines	China occupied Philippine-claimed Mischief Reef. Philippine military evicted the Chinese in March and destroyed Chinese markers.
1995	Taiwan, Vietnam	Taiwanese artillery fired on a Vietnamese supply ship.
1996	China, Philippines	In January, Chinese vessels engaged in a 90-minute gun battle with a Philippine navy gunboat near Capones Island.
1997	China, Philippines	The Philippine navy ordered a Chinese speedboat and two fishing boats to leave Scarborough Shoal in April; the Philippine navy later removed Chinese markers and raised its flag. China sent three warships to survey Philippine-occupied Panata and Kota Islands
1998	Philippines, Vietnam	In January, Vietnamese soldiers fired on a Philippine fishing boat near Tennent (Pigeon) Reef.
1999	China, Philippines	In May, a Chinese fishing boat was sunk in a collision with Philippine warship. In July, another Chinese fishing boat was sunk in a collision with a Philippine warship.
1999	China, Philippines	In May, Chinese warships were accused of harassing a Philippine navy vessel after it ran aground near the Spratly Islands.
1999	Philippines, Vietnam	In October, Vietnamese troops fired upon a Philippine air force plane on reconnaissance in the Spratly Islands.

Table A2--*Continued.*

Date	Countries	Military Action
1999	Malaysia, Philippines	In October, Philippine defense sources reported that 2 Malaysian fighter planes and 2 Philippine air force surveillance planes nearly engaged over a Malaysian-occupied reef in the Spratly Islands. The Malaysian Defense Ministry stated that it was not a stand-off.

Source: United States Energy Information Administration (USDOE EIA 2001b).

Table A3. Disputes over Drilling and Exploration in the South China Sea

Date	Countries	Disputes
1992	China, Vietnam	In May, China signed a contract with U.S. firm Crestone to explore for oil near the Spratly Islands in an area that Vietnam says is located on its continental shelf, over 600 miles south of China's Hainan Island. In September, Vietnam accused China of drilling for oil in Vietnamese waters in the Gulf of Tonkin.
1993	China, Vietnam	In May, Vietnam accused a Chinese seismic survey ship of interfering with British Petroleum's exploration work in Vietnamese waters. The Chinese ship left Vietnamese block 06 following the appearance of 2 Vietnamese naval ships.
1993	China, Vietnam	In December, Vietnam demanded that Crestone cancel offshore oil development in nearby waters.
1994	China, Vietnam	Crestone joined with a Chinese partner to explore China's Wan' Bei-21 (WAB-21 block). Vietnam protested that the exploration was in Vietnamese waters in their blocks 133, 134, and 135. China offered to split Wan' Bei production with Vietnam, as long as China retained all sovereignty.
1994	China, Vietnam	In August, Vietnamese gunboats forced a Chinese exploration ship to leave an oilfield in a region claimed by the Vietnamese.
1996	China, Vietnam	In April, Vietnam leased exploration blocks to U.S. firm Conoco, and ruled out cooperation with U.S. oil firms that signed Chinese exploration contracts in disputed waters. Vietnamese blocks 133 and 134 cover half the zone leased to Crestone by China. China protested, and reaffirmed a national law claiming the South China Sea as its own in May.
1997	China, Vietnam	In March, Vietnamese issued a protest after the Chinese Kantan-3 oil rig drills near Spratly Islands in March. The drilling occurred offshore Da Nang, in an area Vietnam calls Block 113. The block is located 64 nautical miles off Chan May cape in Vietnam, and 71 nautical miles off China's Hainan Island. The diplomatic protests were followed by the departure of the Chinese rig.
1997	China, Vietnam	In December, Vietnamese protested after the Exploration Ship No. 8 and two supply ships entered the Wan' Bei exploration block. All 3 vessels were escorted away by the Vietnamese navy.
1998	China, Vietnam	In September, Vietnamese protested after a Chinese report stated that Crestone and China were continuing their survey of the Spratly Islands and the Tu Chinh region (Wan' Bei in Chinese).

Source: United States Energy Information Administration (USDOE EIA 2001b).

Table A4. Significant Oil and Gas Projects in the South China Sea

<b>Country</b>	<b>Companies</b>	<b>Major Projects</b>	<b>Location</b>	<b>Production/Reserves</b>
<b>China</b>	BP (UK); CNOOC (China), Kerr-McGee (US)	Liuhsia 11-1	China - Pearl River Basin near Hong Kong	Original reserves 1.2 billion barrels; production 22,000 bbl/d
<b>China</b>	CACT Operators Group - Agip (Italy), Chevron (US), CNOOC (China), Texaco(US)	Huizhou (Blocks 16/08, 32-5)	China - Pearl River Basin near Hong Kong	89,000 bbl/d
<b>China</b>	CNOOC (China)	Wei 12-1	SW of Weizhou Islet in Beibu Gulf	34,500 bbl/d (1999)
<b>China</b>	CNOOC (China), Pecton Orient (US), Phillips (US)	Xijang	80 miles SE of Hong Kong	70,000 bbl/d
<b>China</b>	BP (UK); CNOOC (China); Kufpec (Kuwait)	Yacheng 13-1	Off Hainan Island	127 bcf/year natural gas production
<b>Indonesia</b>	Exxon (US) Mobil (US), Pertamina (Indonesia)	Natuna D-Alpha natural gas field	140 miles northeast of Natuna Island.	Recoverable reserves 46 Tcf (includes high carbon dioxide count). Long-term sales target is 2.4 billion cubic feet/day.
<b>Indonesia</b>	Conoco (US), Gulf Indonesia (Canada), Premier Oil (UK), Petronas (Malaysia)	West Natuna	Northwest of Natuna Island.	To supply 1.5 Tcf natural gas over 20-year period to Malaysia & 325 million cubic feet/day to Singapore
<b>Malaysia</b>	Esso Production Malaysia Inc. (EPMI), an affiliate of Exxon (US)	Seligi	165 miles off the coast of Terengganu, Peninsular Malaysia	115,000 bbl/d

Table A4 - *Continued.*

<b>Country</b>	<b>Companies</b>	<b>Major Projects</b>	<b>Location</b>	<b>Production/Reserves</b>
<b>Philippines</b>	Shell (UK/Netherlands)	Malampaya-Camago gas field	NW of Palawan	Planned 500 million cubic feet/year project with potential reserves of 4 Tcf
<b>Thailand</b>	Total SA (France), PTT (Thailand)	Bongkot	400 miles south of Bangkok in the Gulf of Thailand	Estimated 4.5 Tcf proven and probable natural gas reserves
<b>Vietnam</b>	PetroVietnam (Vietnam), Japan-Vietnam Petroleum Company, Petronas (Malaysia)	Rang Dong	Offshore SE of Ho Chi Minh City	Producing 55,000 bbl/d
<b>Vietnam</b>	PetroVietnam (Vietnam), BP (UK), Statoil (Norway), Tomen (Japan)	Nam Con Son	Nam Con Son basin	Planned \$1.8 billion natural gas project to power a 50 percent increase in electricity generation
<b>Vietnam</b>	VietSovPetro JV between PetroVietnam (Vietnam) and Zarubezhneft (Russia)	Bach Ho (White Tiger)	80 miles SE of the port city of Vung Tau	Producing 250,000 bbl/d

Source: United States Energy Information Administration (USDOE EIA 2001b).

## APPENDIX B

### A SYNOPSIS OF THE CLIPPERTON AND ISLE OF PALMAS ARBITRATIONS

#### The Clipperton Arbitration

Clipperton is a remote and barren atoll 600 miles south of Mexico in the Pacific Ocean which was claimed by France for its Guano in 1858, but then ignored for decades because the guano was not commercially exploitable. After Mexico asserted jurisdiction over the atoll in the 1890s (claiming historical links traced back to earlier Spanish explorers), France and Mexico agreed to submit the ownership dispute to arbitration, selecting as arbitrator Victor Emmanuel, the Italian Emperor. When the decision was finally announced many decades later, in 1931, the award went to France, based primarily on its initial formal “discovery” of the atoll. The Emperor’s opinion states that something more than mere discovery is normally needed to establish ownership – “effective occupation” is also required. And “effective occupation” usually requires a presence in the territory and some governmental structure capable of enforcing laws. But for uninhabited islets, these requirements are apparently reduced. All that is necessary is that “from the first moment when the occupying State makes its appearance there,” the territory is “at the absolute and undisputed disposition of that state.” As applied to the facts of Clipperton’s history, France’s claim would appear to have been flimsy even under these weak criteria, because U.S. citizens had explored Clipperton and Mexico had established a garrison there. Nonetheless, the Emperor felt the French claim had not been discredited by these events, and France was awarded title to the atoll. (Valencia et al. 1999, 17)

#### The Isle of Palmas Arbitration

The *Palmas Island* case concerned an inhabited island, but the analysis given by Max Huber, the arbitrator to this dispute between the United States and the Netherlands, reinforces the principle that less is required to acquire ownership of uninhabited places. The United States based its claims on Spain’s earlier “discovery” and the islands “contiguity” or proximity to the main Philippine island (which were then a colony of the United States). The Netherlands (which then controlled Indonesia) invoked its contact with the region and its agreements with native princes. The arbitrator favored the Dutch, based on their peaceful and continuous display of authority over Palmas. Spain’s “discovery” did not confer title because it was not accompanied by any subsequent occupation or attempts to exercise sovereignty. In that sense, the *Palmas* decision is inconsistent with *Clipperton*. Arbitrator Huber also rejected the U.S. claim based on “contiguity,” concluding that international law does not support such a principle. (Valencia et al. 1999, 18)

## APPENDIX C

### DECISIONS MADE BY THE INTERNATIONAL COURT OF JUSTICE (ICJ) IN THE *MINQUIERS AND ECREHOS AND GULF OF FONSECA* CASES

#### The Minquiers and Ecrehos Case

The International Court of Justice addressed . . . issues [from the *Isle of Palmas* arbitration] in 1953 in the *Minquiers and Ecrehos* case. Both France and the United Kingdom claimed title to a group of islets and rocks between the British island of Jersey and the coast of France. Each party produced ancient historical titles from the Middle Ages, but the Court found these materials to be inconclusive and instead focused on actual displays of authority during the 19th and 20th centuries. Based on this evidence, the Court determined that the United Kingdom had exercised state functions over the features, and that France had not established any similar assertions of authority during this period. The Court thus awarded title over all of them to the United Kingdom. The Court also relied for its decision on the view that the Minquiers group were a “dependency” of the Channel islands (Jersey and Guernsey) and thus should be subject to the same sovereign authority. (Valencia et al. 1999, 18-19)

#### The Gulf of Fonseca Case

A more recent case involving a dispute that bears some resemblance to the Spratlys is the *Land, Island and Maritime Frontier Dispute (El Salvador/Honduras; Nicaragua intervening)*, decided by a chamber of the International Court of Justice in 1992. This case involved a dispute over sovereign ownership of several small islands in the Gulf of Fonseca, which is located where the boundaries of El Salvador, Honduras, and Nicaragua meet. This area had been governed by a colonial power--Spain--until 1821 when the region became independent and established the Federal Republic of Central America. This entity lasted until its disintegration in 1839, when the presently existing states of Honduras, El Salvador, Nicaragua, Costa Rica, and Guatemala were established. The Chamber ruled that the Fonseca islands were not *terra nullius* at the time, but instead were inherited by the new entities from Spain. It then focused on which of the new countries occupied the islands, what actions indicated the exercise of authority over them, and to what extent the other states acquiesced in the exercise of authority. The Chamber emphasized that it was not deciding whether occupation by one state over time could establish ownership in a case where pre-existing title was held by another state. Instead, the Chamber made it clear that it was relying upon occupation *and acquiescence* as evidence of the recognition by the states of the region regarding which country had proper title over each of the disputed islands when the evidence regarding a pre-existing title was ambiguous. Based on these principles, the Chamber awarded the island of El Tigre to Honduras because of its occupation of this island for more than 100 years, accompanied by some evidence of recognition by El Salvador that Honduras was authorized to exercise authority over the island. The Chamber then turned to Meanguera

Island (1586 hectares and long-inhabited) and Meanguerita Island (26 hectares and uninhabited, lacking fresh water). The Chamber found evidence of occupation (“effective possession and control”) of these islands by El Salvador since 1854, and found no effective protests by Hondurans. The Chamber’s conclusion was thus that “Honduras was treated as having succeeded to Spanish sovereignty over El Tigre, and El Salvador to Spanish sovereignty over Meanguera and Meanguerita,” with Meanguerita being viewed as an “appendage” to or “dependency” of Meanguera. (Valencia et al. 1999, 19)

APPENDIX D

NINE-DASH LINE MAP



Figure D1. China's Nine-Dash Line Map of South China Sea Claims.  
Source: Rosenburg 2002.

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